

# FINANCIAL TIMES

EUROPE'S BUSINESS NEWSPAPER

No. 30,421

Tuesday December 22 1987

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Bhopal: Death toll grows as lawyers wrangle, Page 20

## World News

### Belgrade proposes 87% budget increase

The Yugoslav Government has proposed an 87 per cent increase in spending next year in a draft budget that calls for reduced expenditure on defence and regional development.

### Smoke kills seven

Six adults and a child died yesterday and 400 others were in hospital in Alexandria after chemicals at an army camp caught fire and released clouds of choking smoke.

### Plane crash

A French commuter airliner crashed into a wood as it approached Bordeaux airport yesterday killing 16 passengers and crew.

### Esprit go-ahead

The second phase of an ambitious Ecu1.5bn (\$2bn) programme to promote joint research in information technology, Esprit II, yesterday received the go-ahead from a meeting of European Community Research Ministers.

### New Turkish cabinet

Turkish Prime Minister Turgut Ozal yesterday announced a new cabinet.

### Iranian attack

Pierce fighting is taking place on the south-central Gulf War front, with Iran mounting repeated attacks against Iraqi positions more than 100 miles north of Basra.

### Diplomatic dispute

Relations between Kenya and Uganda worsened further yesterday with each country accusing the other of harassing its diplomats.

### Korean election

Roh Tae Woo, President-elect of South Korea, yesterday announced that elections for the National Assembly were planned for early February.

### Moscow visit

King Hussein of Jordan arrived in Moscow yesterday for talks with Soviet leaders.

### Minister sacked

Nigeria's military president, General Ibrahim Babangida, sacked Foreign Minister Bolaji Akintola yesterday.

### Swiss appointment

Former schoolmaster Rene Felber, a newcomer to the Government, was appointed Swiss Foreign Minister yesterday.

### US mercy plea

The United States appealed to South Africa to spare the lives of five men and one woman sentenced to hang for the "necklace" murder of a black official.

### Olympic decision

Hungary and East Germany yesterday became the first Soviet bloc countries to confirm their participation in the 1988 Summer Olympic Games in Seoul.

### Road death toll

The number of Japanese road traffic fatalities this year topped 9,000 during the weekend, the sixth consecutive year it has exceeded that figure.

### Auditor jailed

An auditor of one of the collapsed Pan Electric group of companies was jailed for two months by a Singapore court yesterday for issuing a false company report.

### Contra offensive

The Nicaraguan Contra rebels claimed 7,000 of their guerrillas had captured three key mining towns in a major offensive on the eve of peace talks.

## Business Summary

### British Gas clinches deal with Bow Valley

BRITISH GAS is investing C\$857m (\$638.6m) in Bow Valley Industries, a major Canadian energy and services group, giving the British utility effective control of the company. Under the agreement, British Gas will own 51 per cent of Bow Valley's equity and just under one third of the voting shares.

### WALL STREET: By 2pm, the Dow Jones industrial average was up 3.31 at 1,978.61. Page 28

LONDON: Overnight strength on overseas markets lifted UK equities across a broad front. The FT-SE 100 closed up 33.2 at 1,750.2 and the FT Ordinary index rose 27.3 to 1,405.1. Page 38

### TOKYO: Moderate interest in high-technology and pharmaceutical issues buoyed the market. The Nikkei average closed 129.87 higher at 22,956.84. Page 42

REDLAND, British building materials group, has settled its long-running wrangle with New Zealand's Equitcorp, by agreeing to buy the roofing business of Mosier, Australian building products company, for A\$293m (\$US\$213m) cash. Page 21

NEWS CORPORATION, Australian media group owned by Mr Rupert Murdoch, has been blocked by the federal court from acquiring shareholdings in Australian Associated Press, the country's only domestic news agency. Page 22

WESTERN MINING, one of Australia's largest gold and mineral producers, is to spend C\$160m (\$122.6m) on buying Northgate Mines, Canadian gold and copper producer, and bidding for a Canadian mineral exploration company. Page 22

BANK OF SPAIN is to be given tighter control over equity positions on Spanish banks. The bank will have the right to block investors seeking to control banks through shareholdings of 15 per cent or more. Page 21

PARIS CLUB of creditor nations has agreed debt rescheduling packages with Poland and Ivory Coast. Page 2

JAPANESE Government's \$5bn sale of 48m shares in Japan Air Lines was completely sold out. But the share price fell in first day trading. Page 22

EUROPEAN COMMISSION predicted farm incomes in the Community would fall 3.6 per cent in real terms in 1987. Page 28

SANTA FE Southern Pacific and Healey Group have failed to agree on terms for purchase of Henley's 14.7 per cent stake in the railway, natural resources and property group. Page 21

BAYERISCHE VEREINSBANK, fifth biggest bank in West Germany, has reached agreement to buy the Milan and Rome offices of First National Bank of Chicago for an undisclosed sum. Page 21

SIEMENS, West German electronics group, plans to co-operate with Allied Signal of the US in developing, making and selling new products to the world motor industry. Page 22

MIDLAND BANK and Hongkong and Shanghai Banking Corporation cleared the final hurdles to what is regarded as a trial link of the two. Page 25

## Israeli Arabs in mass strike as Gaza riots intensify

BY OUR JERUSALEM CORRESPONDENT

ISRAELI 600,000 Arab citizens brought central Israeli towns to a halt yesterday in an unprecedented 24-hour protest strike as Palestinian riots in the occupied West Bank and Gaza Strip intensified.

Three Arab youths were shot dead and at least 14 wounded in yesterday's incidents in the West Bank.

A fourth Arab died of wounds sustained 12 days ago, bringing the official death toll in this month's disturbances to the worst in 20 years of Israeli occupation - to 19. According to unofficial figures, as many as 24 may have died.

The strike brought all business and education to a halt in the Arab towns and villages of Galilee and the Sharon plain, Israel.

Arabs observed a minute's silence at noon in memory of victims killed and wounded across the pre-1967 war border.

This was the first mass demonstration of its kind by Israeli Arabs, who have increasingly identified themselves with the Palestinians of the occupied territories.

The protest provoked resentment on the Israeli right, but a proposal by a leading Likud backer, Mr Chaim Kaufman, to impose restrictions on their movements was rejected by his own party caucus yesterday.

The stoppage was mirrored in the West Bank and Gaza, where shops and schools remained closed and public transport came to a standstill.

Hardly any of the 60,000 day labourers from Gaza and 55,000 from the West Bank reported for work at Jewish-owned building sites, factories and hotels.

The absence of Arab workers was reported to have hit production in many plants. Mr Chaim Kaufman, the managing director of the Argaman textile group, estimated that output in his factories was down 20 per cent.

Leavers of both the construction and hotels industries were, however, putting a brave face on the potential for longer-term disruption.

Mr David Stern, chairman of the Israel Contractors' Association, said that until yesterday some Arab labourers had continued coming to work. Only a few days had been lost so far, he said. Jewish workers were also able to fill in for the absentees.

"I don't want to estimate the damage or calculate our losses," Mr Stern said. "We'll do that once this carnival is over."

Arabs make up 25 per cent of the hotel workforce. Mr Eli Paposhado, president of the Israel Hotels Association, said: "The truth is that it hasn't affected us. Over the past few weeks only a few individuals have not been turning up. Today we cancelled leave for our Jewish staff."

Workers from Gaza are coming under increasing pressure from Palestinian militants to stay away. On Sunday, a bus full of labourers was stopped and set on fire before it could leave the strip.

If most of the workers comply with the stoppage, it could have a severe impact since much unskilled, low-paid work is no longer done by Israelis.

Paradoxically, however, a sustained stoppage might also speed the end of the disturbances, because the Arab workers most of them refugees with large families - depend on their Israeli wages.

Continued on Page 20

## Bonn spurns OECD call to speed up pace of economic growth

BY IAN DAVIDSON IN PARIS

THE WEST German Government yesterday publicly rejected an advance recommendation by the Organisation for Economic Co-operation and Development that Bonn should take steps to accelerate its economic growth.

In its semi-annual Economic Outlook, to be published today, the OECD argues that West Germany "necessarily" has a central role in helping Europe alleviate its economic difficulties because it has room for faster economic growth.

The West German Government has for some time been under pressure from the US and other western countries to raise its economic growth rate in order to curb its large balance of payments surplus and help alleviate the downward pressure on the dollar.

In addition, revised OECD projections since the international stock market crash have suggested that Bonn has increased room for economic expansion because its growth rate in 1988 is forecast to slip from 2 per cent to 1.5 per cent. Mr Gerhard Schröder, the West German Finance Minister, said at the weekend that he now expected growth of between 1.5 and 2 per cent next year.

However, in a dramatic infringement of normal diplomatic procedures, the German delegation to the OECD issued a press release categorically rejecting the recommendation. "From the German point of view," it said, "the present economic situation does not require further measures."

The OECD's recommendation is equally categorical. "While the authorities have set in motion previously agreed policy, it is the assessment of the OECD and most other observers - that, even taking

account of the 1988 tax cuts and discounting any adverse effects of the stock market crisis, the German economy may continue to grow below its medium-term potential over the remainder of the 1980s.

"Additional macro-economic policy action is necessary to achieve more satisfactory performance. There is scope, too, for improving performance through structural policies."

Disagreements between national capitals and the OECD Secretariat over economic policy options are nothing new, at least behind the scenes. But this argument between Bonn and the OECD has acquired a peculiarly public character.

A month ago, on November 17, to the obvious irritation of the German delegation, the committee of top national economic offi-

Continued on Page 20

## Reagan welcomes signs of end to budget dispute

BY STEWART FLEMING, US EDITOR, IN WASHINGTON

CONGRESS appeared yesterday to be on the verge of approving a \$300m package of tax increases and spending cuts designed to implement the first stage of a two-year \$70bn plan to reduce the federal budget deficit.

President Ronald Reagan signalled his approval of decisions which were made at the weekend, settling some of the outstanding issues which had been blocking approval of the budget legislation. "I think great progress has been made. I hope they can get a budget package down here that I can sign so we can all go home for Christmas," he said.

Approval of the budget legislation three months after the beginning of the first fiscal year to which it applies would prevent \$24bn of automatic spending cuts provided by the Gramm-Rudman Hollings budget reform legislation from taking effect.

It is also expected to trigger the release of a statement by the Group of Seven leading industrial countries drawing attention to their recent success in separately adjusting their economic policies in ways which, it is hoped, will help to stabilise the world economy.

The statement is expected to paper over differences about how much of a priority ought to be attached to efforts to stabilise the dollar. As a result, the financial markets' reception of the statement will be closely monitored by G7 officials.

A key breakthrough in the budget deficit negotiations in Washington came on Sunday evening when White House and Congressional leaders reached a compromise on a spending provision allowing the US to send a further \$8.1bn of aid to the Contra rebels who are seeking to overthrow the Sandinista Government in Nicaragua.

The compromise calls for a further vote on the question of additional Contra aid on February 3 or 4.

Several other issues still remained to be resolved. These included, for example, how precisely spending cuts for the Medicare and Medicaid systems should be implemented and the fate of a provision requiring broadcasting companies to allow opponents of material that has been published free air time to express their views.

But with both Congress and the White House now anxious to get away from Washington for Christmas, it is expected that these questions can be resolved quickly.

Although the budget accord is expected to reduce the budget deficit in the current fiscal year below the levels it would otherwise have reached, private economists continue to predict that the 1988 fiscal deficit will nevertheless be higher than the \$148bn recorded in the 1987 fiscal year.

US budget deficit 'set for sharp increase' Page 4

## Copper prices hit record high

BY KENNETH GOODING, MINING CORRESPONDENT, IN LONDON

NEWS THAT stocks of copper in London Metal Exchange warehouses - already at a dangerously low point - had fallen by a further 7,500 tonnes to 42,875 tonnes, the lowest since July 1974, sent prices soaring on the London Metal Exchange yesterday.

The cash price for Grade A copper rose to \$1.955 (\$3.051) in early trading, \$77.50 above Friday's close, before ending the day at \$1.684.50 where it was well ahead of the previous peak of \$1.610 achieved on November 25.

This follows four years of copper demand outstripping supply, and stocks have been whittled away. Mr Robin Bhat, analyst at Rudolph Wolff, the London-based metal trader, said that if present trends continue the final world copper stocks would reach about 570,000 by the year end, equivalent to only four-and-a-half weeks consumption.

Copper shortages have already begun to have an impact in North America and Mediterranean countries, and users in other parts of Europe are becoming increasingly nervous.

Mr Peter Schenck, general manager, purchasing for BICC Cables in the UK pointed out that users often first hear of supply difficulties when a shipment is missed. "And most copper for Europe is three or four weeks away."

Traders emphasise that the current shortage is only of high-grade copper and suggest it has been caused by a world-wide lack of smelting capacity.

For example, Noranda, the large Canadian natural resources group, has told customers in the US and Europe that they can have only about one quarter of the high grade copper it contracted to supply in January and February next year because of a series of problems at its Quebec smelter.

The Japanese, like other high-grade copper producers, failed to predict the continuing strong demand from the building and motor industries this year and deliberately cut back smelting capacity, with the result that Japan has had to import the metal.

Taiwan's Keelung smelter was recently struck by a typhoon and will be out of action for six to eight weeks. Although it is a relatively small unit, producing about 50,000 tonnes a year, traders are concerned that this might exacerbate the shortage early next year.

Analysts believe the copper supply will not improve until the second half of 1988.

## British Airways wins takeover battle for BCal

BY CLAY HARRIS IN LONDON

BRITISH AIRWAYS yesterday won the takeover battle for British Caledonian Group with an increased \$260m (\$455m) cash bid which pre-empted Scandinavian Airlines System's plan to raise its own partial offer.

After BA's new bid was recommended by the BCal board, investors in the airline (30), the clearing bank-owned investment group, sold its 41 per cent stake to BA. This gave BA a majority and it declared the bid unconditional.

Mr Helge Lindberg, SAS deputy chairman, said: "We were prepared to put in a new offer that was competitive with the \$200m offer from BA." When BA's higher terms were revealed, however, SAS withdrew.

Yesterday's events spelled the end to BCal's 17-year effort to become the "second force" in UK commercial aviation and leaves BA as the country's only significant long-haul carrier.

They also concluded a bitter five-month battle for BCal. In the latter stages, SAS's role as an airline half owned by three Scandinavian governments seeking a significant stake in BCal had met considerable political opposition in the UK.

BA prepared to pay anything whatever we did, to firm up its monopoly," Mr Lindberg said. "In the end, BA seemed to have more to lose than SAS stood to gain, and BA consequently placed the higher bid."

The Scandinavian airline had offered \$110m for 28.14 per cent of BCal's shares and would have injected another \$20m as part of a complex recapitalisation package which BCal had recommended on December 8.

Lord King, BA chairman, said: "We consider that the price we have paid will be fully justified in the future trading and earnings performance of BA. If we had failed to grasp this opportunity for expansion across the



Lord King: "The price will be fully justified."

BCal route network, it might not arise again in the short to medium-term future."

The winning bid was worth more than double the \$119m cash terms which BA offered on November 20. In fact, it exceeded the \$220m cash price to which BCal agreed in July, before a reference to the Monopolies and Mergers Commission, and nearly matched the \$257m value of BA's pre-market cash share offer.

BA produced the knock-out offer in reply to an ultimatum delivered to both parties last Friday by Goldman Sachs, the US investment bank advising BCal. Goldman Sachs told BA and SAS that the BCal board would meet at noon yesterday and consider whatever offers were on the table. Only BA came up with a new bid.

BA also delivered an ultimatum yesterday. After finalising its increased bid, BA told 31 that the offer would be withdrawn if

Continued on Page 20

## Philippines ferry toll 1,500 after tanker collision

By Richard Gourlay in Manila

MORE THAN 1,500 people are missing, feared dead, in the Philippines after a passenger ferry collided with an inter-island tanker in what seems likely to be the world's worst peace-time maritime disaster.

Some of the 27 survivors who were plucked from the water by a passing ship said passengers leapt from the crowded ferry into water that was covered in a sheet of flames.

Thirty-six hours after the collision in the pitch dark of Monday morning, rescuers combing the area 80 miles south of Manila in helicopters and aircraft had found an oil slick but neither signs of wreckage nor more survivors.

The 2,140-ton ferry Dona Paz was packed with holidaymakers going to Manila for Christmas when it struck the tanker in calm seas but poor visibility. The ferry's owner said there was no way of telling how many people were on board but survivors spoke of terrible overcrowding.

After being rescued from the tropical waters off Mindoro, 19-year-old survivor Renato Asia told the water teemed with more victims of the collision than rescuers could handle.

"I saw the floating bodies of children and old people in the water. The rescuers did not pick them up any more, they were busy saving those still alive," he said in a Manila hospital.

The coastguard said there was an official count of 1,566 passengers and crew on the two vessels, which sank in waters with an average depth of 530 metres (1,740 feet).

The Dona Paz manifest listed 1,493 passengers but the coastguard said it carried more than 100 more.

It is not the first such disaster to strike the Philippines. In 1980, hundreds died when a ferry struck a tanker off the coast of the island of Leyte. When the Titanic struck an iceberg in the Atlantic on its maiden voyage in 1912, it went down with 1,513 people on board.

Ferries are a common means of transport, especially among poorer people, in the archipelagic Philippines where there are more than 7,000 islands. There is rarely tight control either over the numbers carried, the navigational equipment used or the safety standards. Last week a ferry sank after it was caught on the edge of a typhoon, taking with it two candidates for the local elections being held early next year.

It completes a terrible year for disasters in the Philippines. In November, more than 650 died in the worst typhoon to hit the country in a decade, and last week a Philippines Airlines plane crashed, the second in a year, this time killing 16 passengers and crew.

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Mr Piers Jacobs, Hong Kong's Financial Secretary, will defend the rate link to the bitter end, Page 20

## HONG KONG TURNS THE TIDE ON DOLLAR SPECULATION

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# 1988

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## EUROPEAN NEWS

## EC ministers approve second phase of Esprit

BY WILLIAM DAWKINS IN BRUSSELS

THE SECOND phase of an ambitious Ecu1.6bn (£1.1bn) programme to promote joint research in information technology yesterday got the go-ahead from a meeting of European Community ministers.

The decision brings to an end more than a year of uncertainty and delay over the funding for Esprit II, which involves about 500 EC companies and is the largest programme in the European Commission's overall Ecu5.2bn research budget.

All that remains now is for the European Parliament to give its formal assent within the next few months before Esprit II's adoption by member-states. The programme is held by Brussels as a key to helping the EC keep up in the world information technology race, which absorbs more than \$36bn R&D spending annually.

Esprit II's budget, covering the five years to the end of 1992, was slashed from the original Ecu2.5bn proposed by Brussels during the long controversy over the EC's overall research budget, held up solely by the UK on the grounds that it was wasteful and inefficient.

Under the programme, the commission contributes half the cost of pre-competitive research into information technology between companies in different

## Italians launch reform manifesto

By John Wyles in Rome

THE introduction in Italy of an electoral system similar to that used in France has been launched in a manifesto signed by 30 luminaries of Italian culture, science and industry.

The initiative, choreographed by Mr Mario Segni, the Christian Democrat MP, adds spice to the lively debate about how to make Italy "governable".

In the past fortnight, Mr Bettino Craxi, the former Prime Minister and leader of the Socialist Party has begged the Italian people to vote for him, warning that Italy's needs were so great that the reform process must get under way in 1988, he obligingly threatened to force a general election if it remained stalled.

In a newspaper interview published at the end of last week, Mr Craxi was vague about the political changes which he thought might be agreed between the parties. However, warning that Italy's needs were so great that the reform process must get under way in 1988, he obligingly threatened to force a general election if it remained stalled.

The absence of any evidence of agreement on the substance of reform however strengthens the general scepticism about the likelihood of it taking place. Mr Segni says that the election reform manifesto, which has been signed by such people as Mr Umberto Agnelli of the Fiat group, Mr Alberto Falck, the steelmaker, and Mr Rita Levi Montalcini, the Nobel prize-winning scientist, has been borne of the conviction that popular pressure has to be organised to push the parties in the direction of reform.

The virtues of the French electoral system, which is based on the concept of voting with the two leading candidates for any constituency confronting each other in the final round, are seen as forcing a reduction in the number of parties and presenting voters with a choice of alternative governments.

Mr Craxi has discussed electoral reform with his counterparts in other parties, but has urged parliament to speed up decision-making. If there is to be any final package, it would be more likely on the latter than the former.

There is a point of view, propagated most strongly by Mr Giorgio La Malfa, secretary of the tiny Republican Party, that much of the debate generated on political reform is rather more about a governmental formula capable of finding a substitute for the leadership of Mr Giovanni Goria, the Christian Democrat Prime Minister, which may not survive the early spring.

With the Communist Party now embracing the idea of political reform, making unusually cosy noises about Mr Craxi, Mr La Malfa and leaders of the other small parties fear a rapprochement between the Christian Democrats, the Socialists and the Communists. This need not necessarily bring the Communists into government, but it could lead to a change in the rules of the political game at the expense of the smaller parties.

## Ozal cabinet likely to disappoint radicals

BY DAVID BARCHARD IN ANKARA

THE TURKISH Prime Minister, Mr Turgut Ozal, yesterday announced a new 84-member cabinet following the Motherland Party's general election victory on November 29.

Initial reaction in Ankara was that the list, which contains 10 fresh faces, would disappoint free market economic radicals in the Government, but would please the right wing of the party.

The name of Mr Mehmet Kaceler, the Islamic Fundamentalist deputy leader of the party, was missing from the cabinet. He is thought to have been dropped at the insistence of President Kenan Evren.

Mr Kaya Erdem remains the deputy Prime Minister, in spite of widespread criticism of many of Mr Ozal's younger economic advisers who regard him as an obstacle to further free market reforms.

The new Foreign Minister is the outgoing Tourism Minister, Mr Mesut Yilmaz, 40. Mr Yilmaz

His appointment is a surprise because it comes over the heads of candidates with stronger economic backgrounds, such as Professor Ekrem Pakdemirli, who has been made Minister of Communications, and Mr Yusuf Bortcu, who becomes a Minister of State. Mr Yusuf Ozal, head of the State Planning Organisation, had been tipped as a possible economic overlord.

Another of Mr Ozal's best-known lieutenants, Mr Adnan Kahveci, has also been made a minister of state. The cabinet contains altogether nine ministers of state who work inside the Prime Minister's office, and 14 departmental ministers.

Mr Ozal is known to have wanted to alter the cabinet and ministerial structure and to create deputy ministers but he was opposed by President Kenan Evren who seems to have been

able to exert more influence on the cabinet list than expected. "I was expecting that many of the old cabinet would stay in place," said one Turkish analyst yesterday. "But this is a relatively lacklustre list in which Mr

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## Belgrade proposes 87% budget increase

BY ALEKSANDAR LEBEL IN BELGRADE

THE YUGOSLAV Government has proposed an 87 per cent increase in spending next year in a draft budget that calls for reduced expenditure on defence and regional development.

The draft calls for total spending of 5,770bn dinars (\$2.5bn) in 1988, compared with 3,086bn dinars this year. The federal parliament, which is considering the draft, is set to press for considerably higher cuts in all items of spending, including the armed forces and the diplomatic service.

Mr Svetozar Rikanovic, the Finance Secretary, told parliament that the federal budget's share of the country's social product (roughly equivalent to gross domestic product) would be only 6.5 per cent, which is only one percentage point less than planned for 1986-1990.

He also said that expenditure for two of the most important items - armed forces and assistance for underdeveloped regions

had been reduced by 5 per cent compared with the plan initially voted for by parliament. The armed forces were supposed to get the equivalent of 5.2 per cent of the national income and will get 4.94 per cent instead, about 4,286bn dinars, while the less developed regions, which are entitled to 0.53 per cent of the national income, would also get 5 per cent less.

Expenditure for all other beneficiaries will be reduced by 10 per cent compared with what they were supposed to obtain on the basis of previous decisions.

Defending the military budget, Admiral Rikanovic said that Yugoslavia could not ignore threats to its security. He admitted that the recently-signed

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## Norwegian Prime Minister in attempt to allay krone fears

BY KAREN FOSSLI IN OSLO

NORWAY'S Prime Minister, Mrs Gro Harlem Brundtland, said yesterday parliament would support measures to prevent devaluation of the Norwegian krone in 1988, in spite of mounting pressure for its devaluation.

The krone was last devalued in 1986 by 12 per cent. Economists say that to fend off an overheated economy and to restore its balance it will be necessary in 1988 to devalue by up to 20 per cent or to introduce price/wage regulations.

Mrs Brundtland said yesterday that Norwegians must accept price rises next year below the country's inflation rate - currently 7.5 per cent.

Norway's economy is suffering from a tight labour market (in October registered unemployment was just 1.5 per cent), a weak currency and soaring interest rates.

Last week the krone index fell to 114.36, its lowest level since a year ago, when it was 114.50. The Central Bank said that it would intervene to prop up the krone by raising interest rates by up to 2 per cent.

Mr Tormod Andreassen, chief economist and vice president at Christiania Bank, believes that Norway's economy is on a "collision course" because of bleak prospects for Norwegian exports resulting from the downward pressure on oil prices.

The loss of confidence in Norway's economy has been fuelled by the Government's inability to introduce strong enough austerity measures in its 1988 national budget proposal.

Reduced economic growth and a reduction in prices for exports, namely oil, will significantly affect government revenue in 1988. Oil accounts for about 12

per cent of Norway's gross national product. In 1988 petroleum products and shipping services accounted for 46 per cent of the value of Norway's total exports. The slump in its price in 1988 also contributed to a reduced current account balance equal to 12 per cent of GNP.

In its budget proposal the Government worked on an oil price of \$18.60 a barrel to calculate expected oil income for 1988. However the oil price has hovered below \$18 per barrel for several weeks. After the Opec conference, which did little to restore confidence in the future of the oil price, a senior Norwegian finance official admitted that "as things seem now, our oil price scenario could be too optimistic".

Norway stands to lose some Nkr9bn annually in export revenue and tax revenue if the oil price falls below \$16 per barrel.

## Nazi allegation against leading broadcaster

By Haig Simonian in Frankfurt

ONE OF West Germany's leading broadcasters was yesterday urged by his employers to stand down as soon as possible following revelations about his journalistic activities under the Nazis.

Mr Werner Hofer, whose "Internationale Fruhschoppen" discussion programme is watched by millions of Germans, Swiss and Austrians each Sunday lunchtime, became a controversial figure after disclosures in last week's *Der Spiegel* magazine about articles he is said to have written for a Nazi newspaper.

In the most extreme example, Mr Hofer, aged 74, is quoted as indirectly justifying the execution of Karl Robert Kreiten, a talented pianist, by the Gestapo in 1943.

The popularity of the programme, in which five domestic and foreign journalists discuss topical issues, has much to do with Mr Hofer himself.

Last week, two journalists, Guenther Hammer of the Westfaelische Rundschau and Andrew Fisher of the Financial Times, dropped out of a programme pending a clarification by Mr Hofer of his activities. He has maintained that his articles were amended by his editors and did not always reflect his views. He says he is taking legal action against the magazine.

Management at Westdeutsche Rundfunk met yesterday and issued a diplomatically-worded call to Mr Hofer to resign. The issue has divided German opinion and it is charged that the TV station had not stood by Mr Hofer.

Attention is focused on state-owned television whose annual production of about 1.1m tonnes is equal to about half Italian steel output. It is accepted that at least one of Italy's mills will be closed. The main victim will be either the Bagnoli plant in Naples or Taranto.

Large job losses are inevitable. Over the past 15 years Falck has reduced its workforce from 12,500 to 4,500. Mr Adani said that the industry must shed a further 35,000 jobs to reach a viable level of 30,000. It is expected that the bulk of these cuts will be borne by the 25,000 and 30,000 workers.

The task will not be easy because both Naples and Taranto are in the Mezzogiorno where investment has been encouraged in order to create employment. All Falck's Lombardy, but even so the company encountered severe difficulty in implementing its rationalisation programme.

## Brussels urged to look again at research bodies

BY OUR CORRESPONDENT IN BRUSSELS

THE EUROPEAN Commission was yesterday accused of not going far enough in its plans for increasing efficiency at the EC's much criticised four Joint Research Centres.

A meeting of the EC's 12 research ministers was unable to accept wide-ranging commission proposals for tightening up management and attracting more private funding at the centres in northern Italy, West Germany, Belgium and the Netherlands.

The EC-backed science laboratories' 2,260 staff conduct research into a wide range of disparate subjects from materials testing to nuclear safety and alternative energy and absorb roughly a tenth of commission technology spending. Brussels will now have to toughen up its reorganisation plans for the next ministerial research meeting in April.

Mr Heinz Reichenhauer, the West German Research and

Development Minister, due to take the chairmanship of the Research Council next year, called for more details of how the centres' performance should be monitored. Mr Kenneth Clarke, the UK Research and Technology Minister, called for better control on areas where JRC work duplicates other EC research.

The commission is proposing that the centres' almost total dependence on the EC research budget for their Ecu150m annual income should be scaled down to 60 per cent by the end of the decade, a change which Britain, West Germany and the Netherlands feel should go further and faster.

Brussels also suggests that the JRC should employ more younger scientists on short contracts. Member states did however agree on broad outlines for the centres' future, which included more autonomy and less interference from Brussels.

## Paris Club in deals with Poland and Ivory Coast

BY GEORGE GRAHAM IN PARIS

THE PARIS Club of creditor nations has agreed debt rescheduling packages with Poland and Ivory Coast after a round of negotiations last week.

Poland's official debts are to be rescheduled over a period of 10 years, with a five-year grace period. The agreement, which wraps a number of repayments covered by earlier accords in with current repayments, is viewed as significant since it represents the normalisation of Poland's relations with its creditors.

It leaves unanswered a number of questions about the country's financial future, since it includes only repayments due up to the end of 1989.

For Ivory Coast, the Paris Club agreement allows the rescheduling of some \$600m of official debt repayments, and is expected to pave the way for a pact with the country's commercial bank creditors.

The terms of the Ivory Coast agreement - rescheduling over 10 years with six years' grace - are in line with traditional Paris Club conditions. With a per capita income of around \$620 a year the country is not viewed as qualifying for the longer rescheduling periods recently approved for some of the poorest countries of sub-Saharan Africa such as Somalia and Mozambique.

## Haig Simonian reports on increasing pressure on Bonn to reform outdated laws regulating store opening times

## W Germans still waiting to ring in changes in shop hours

SANTA HASN'T walked out yet, but all is not well in the Grotto. For while the hills are ringing as loudly as ever in West Germany's department stores this Christmas, there are growing rumours of discontent under the tinsel and bright lights.

Kids whispering their Christmas presents lists have probably been spared, but their parents have heard it all before. The perennial debate about Germany's archaic *Ladenschlussgesetz* - its shop closing law - is rumbling once again.

This time, however, the pressures for change are stronger than ever. West Germany may have altered almost beyond recognition since 1856 when the law was passed, but stores are still required to close their doors by 6.30pm during the week and 9pm on all but one Saturday a month.

This week's cover of *Der Spiegel*, West Germany's weekly news magazine, is devoted to the issue, which has always been emotive. Some foreign governments, pressing Bonn to expand the economy, are even starting to treat shop reform as a touchstone of the Government's desire to liberalise.

Even Mr Alfred Herrhausen, chief executive of Deutsche Bank, who is said to have the ear of Mr Helmut Kohl, the Chancellor, had his say last month. Planning of over-regulation in West German business in general, he deplored of the difficulties facing any worker trying to shop during the week. All that



Longer opening times have proved popular with shoppers

was available were a few short hours on Saturdays, he noted, when busy executives such as himself would prefer to stay at home with their families.

None is talking about a revolution, however. The issue is simply a plan to extend shopping until 10pm one evening a week from 1989. The agreement to amend the previously sacrosanct shopping law was part of the deal hammered out between the liberal Free Democrats and the majority Christian Democrats as part of their accord after the general election in January.

ing, the two unions involved, nor the country's big store groups, want to see a change in the law.

Ironically, the present bout of friction behind the counter, which has led to threats of lightning strikes in certain stores, is about how to consolidate that time being.

The unions are demanding a cast-iron commitment from the employers to 6.30pm closing as part of this year's pay round for shop workers, now being negotiated on a regional basis around the country.

On Tuesday, one day before they were due to start, an industrial tribunal in Dusseldorf blocked the DAG's plan for rolling strikes in North Rhine Westphalia. The union has agreed to suspend its action for the time being.

Meanwhile, the HBV had been planning similar action in Baden-Wuerttemberg. An industrial tribunal in Stuttgart earlier this month turned down an appeal by five department stores to have the strikes prohibited. However, the union has now decided to suspend its action, too, in view of the Dusseldorf decision, although it intends to fight the judgment "by all legal means," according to Mr Klaus Eilrich of the HBV.

"YOU'RE NOT allowed to sell a mother milk for her baby after 6.30pm, but you can sell the father two bottles of whisky," says Mr Walter Fiedler, proprietor of a tobacco and liquor store in Frankfurt's West End.

Somewhat similar to a UK offence, West Germany's *trinkhallen*, which are usually unappealing little kiosks in residential areas, can stay open outside normal shopping hours.

The shutters close down officially on food sales at 6.30pm, though the kiosks are open until 10pm.

However, anyone wanting alcohol and tobacco need not worry. Mr Fiedler, who has run his rather superior *trinkhalle* for almost six years, reports brisk trade in tobacco and liquor and sometimes spirits too.

"I can sell everything unhealthily after 6.30pm. But whatever's healthy can't be sold," he says. "So while the father ends up in the clinic, the baby stays howling at home until the shops open in the morning."

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Mr Fiedler is reluctant to say whether he breaks the law and sells food after hours too.

"Everything goes - as long as it's not a dog's fuss about it," he says. "No one's complained, because the people are happy to buy what they want, when they want."

Among the excuses used by *trinkhalle* owners are that goods are being given as a present, or for later payment. Best of all is the argument that a proprietor may just be giving his customer some bread free and charging two marks for the plastic bag. Even in Germany, it seems, there are ways around the law.

The Co-op is in an unusual position. It still has a substantial presence in the high street, while more recently it has been developing large greenfield shopping and do-it-yourself sites. Hence Mr Otto's view that the law should be relaxed at least enough to allow each store group to make up its own mind.

Mr Bernd Otto, chief executive of Co-op, takes a similar, though slightly more restrained, view. "We would like a small liberalisation of, say, one evening a week," he says, though he is still not entirely persuaded by the arguments for longer hours.

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**FINANCIAL TIMES**  
Published by the Financial Times Group Ltd., 1, Abchurch Lane, London EC4N 3DF.  
Represented by E. Hugo, Frankfurt/Main, and, as members of the Board of Directors, P. Borchers, R.A.F. Mearns, G.T.S. Dancer, M.H. Gorman, D.T.S. Palmer, London.  
Printed by Frankfurt-Verlag, Frankfurt/Main.  
Responsible editor: D. Allen.  
4000 Frankfurt am Main 1, Tel. 069 416193 Fax 069 72277.  
The Financial Times Ltd. 1987.  
FINANCIAL TIMES, USPS No. 190-622, publication daily except Sundays and public holidays. Second-class postage paid at New York, NY, and at additional mailing offices. POSTMASTER: send address changes to FINANCIAL TIMES, 400 6th Street, New York, NY 10012.



## Iranians mount attacks to test Iraqi defences

BY OUR MIDDLE EAST STAFF

FIERCE FIGHTING has broken out on the south-central Gulf war front, with Iran mounting repeated pushes against Iraqi positions more than 100 miles north of the besieged Iraqi port of Basra.

Iran's national news agency Irna said that Iranian forces killed or wounded 1,000 Iraqi troops and seized 12 square miles of Iranian territory yesterday when they ambushed Iraqi positions on the east bank of the Tigris river in the Fakkeh area. Five Iraqi counter-attacks were beaten back, 15 Iraqi prisoners were taken and a large amount of military hardware taken or destroyed, it added.

This was the second Iranian attack in the same sector of the war front since Saturday night, and comes amid preparations for

what the Iraqis expect to be a big, land offensive, with about 250,000 Iranian troops reported to be massed in the south.

On Sunday Iran said 1,500 Iraqi troops were killed or wounded in an overnight raid in the Zubaidat area, 125 miles north-east of Iraq's Gulf port of Basra. Iraq said Iran's push at the weekend was repelled with 2,000 Iranian casualties.

Baghdad has claimed that the weekend attack represented the start of the long-awaited offensive. Diplomats in the Iraqi capital believe it is more likely that Iran is simply limbering up and testing the Iraqi defences. It is conceivable that the Iraqis will continue to mount probing attacks for an extended period, hoping to catch the Iraqis off guard, rather than hurrying into an all-out offensive.

## ROH WANTS NEW ELECTION LAW

### Korea assembly election planned for February

BY MAGGIE FORD IN SEOUL

MR ROH TAE WOO, President-elect of South Korea, yesterday announced that elections for the National Assembly were planned for early February and asked the opposition parties to start negotiations this week over a new election law.

The ruling party plans to change the basis of constituency party representation, with the number of proportionally chosen members reduced. The system has always resulted in a ruling party majority.

The opposition Reunification Democratic Party led by Mr Kim Young Sam, who came second in the disputed presidential poll last week, rejected the proposal for talks.

Both the RDP and the Party for Peace and Democracy led by Mr Kim Dae Jung, are struggling to understand the way election fraud, possibly involving computerised manipulation, may have been used to produce what they consider to be an inexplicable set of results. Neither party until recently has been able to command the assistance of experts because of the fear of persecution by an authoritarian government.

Both parties yesterday paid for advertisements in Korean newspapers to answer the shower of criticism they have attracted over their failure to agree on a single opposition candidate who might have been able to win the election. The two Kims promised to respect the will of the people, and to reveal their reasons for thinking the election was rigged as soon as possible.

The Government yesterday reiterated its threat to crack down on false rumours about fraud, arresting a university professor and charging nearly 200 people involved in a demonstration last week over a suspect ballot box.

Minor demonstrations over election fraud continued in several cities but there was no serious violence.

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## Hussein seeks Soviet help to end Gulf war



Hussein: Frustration with Washington

KING HUSSEIN of Jordan, his political position bolstered by the Arab summit he hosted last month, arrived in Moscow last night on an official visit designed principally to enlist more active Soviet co-operation in international efforts to end the Gulf war.

The King, with a large entourage of senior officials, will press Mr Mikhail Gorbachev, the Soviet leader, to clarify his post-

By Andrew Gowers, Middle East Editor

tion on a possible mandate to enforce an embargo on arms sales to Iran.

According to Western officials, Moscow has recently moved closer to accepting the need for such a ban, but it is also attempting to secure Western agreement for the creation of a naval force under the UN flag to

enforce an embargo - an idea hitherto rejected by the US and Britain.

Since the Amman summit, which condemned Iran for failing to agree to a ceasefire, King Hussein has assumed the mantle of a senior Arab spokesman on this issue.

The Jordanian monarch will also discuss the debilitating stalemate in the Arab-Israeli conflict, which has been thrown sharply

into focus by the continuing disturbances in the Israeli-occupied West Bank and Gaza strip. Both King Hussein and the Soviet leadership have been active proponents of an international conference under UN auspices to resolve the issue.

The visit to Moscow by one of the West's most consistent Arab allies also has an important symbolic content. King Hussein has made no secret of his intense frustration at what

he regards as Washington's immobilism on the Arab-Israeli issue, as well as its refusal of a number of Jordanian requests for arms.

His annoyance, which came to a head last year with the revelation of covert US arms sales to Iran, has led him to look for alternative weapons suppliers, including West European nations and the Soviet Union, which is trying to sell him a number of MiG-29 advanced fighter aircraft.

Richard Gourlay on a change of economic fortunes with unwanted side-effects on already depleted foreign currency reserves

## Philippines grapples with deficit in midst of plenty

THE PHILIPPINE economy is showing signs that the robust consumer-led recovery this year may turn into sustainable growth in 1988 because investment, mainly by Filipinos, has picked up sharply. Strong third-quarter growth, however, was accompanied by a sharp rise in imports which cut more than was expected from foreign currency reserves, economists say.

They are concerned that the recovery could be nipped in the bud by a balance of payments crisis as reserves, that have already fallen from \$2.4bn in July to \$1.9bn today, continue to tumble as imports are sucked in. It would, however, be a crisis in the midst of plenty. A balance of more than \$2.1bn of aid committed by international aid donors to the Philippines is still

unused because Manila's technocrats have failed to identify and implement enough suitable projects. "The Government really has to implement projects otherwise the reserves will be run down to dangerous levels," said Mr Cesar Virata, a respected former finance and prime minister under President Ferdinand Marcos.

The culprit appears to be unexpectedly high third-quarter growth. Gross national product in the third quarter of 1987 grew 6.5 per cent bringing the first nine months increase to 6.5 per cent compared to a barely positive rate for the whole of 1986, according to National Economic Development Authority figures. Consumption, which accounts for 73 per cent of GNP, was strong because of high copra

(dried kernels of coconut) prices, elections and a referendum during which spending by officials and candidates was high. Ironically the Government's underspending by 30 per cent on fixed capital formation has probably prevented a greater increase in imports.

Evidence suggesting investment is picking up is imperfect. Both the Securities and Exchange Commission and the Board of Investments, for example, have produced third quarter figures on newly registered capital and new projects that suggest there was a sharp - perhaps as high as 70 per cent - increase in investment in the first nine months of 1987. Notably the increase came from Filipino and Filipino Chinese investors in a wide range of small, unglamorous investments and not from foreign or big-ticket projects.

Bankers say increasingly that businessmen already established in the country are having a bonanza on the back of strong consumer demand and are using earnings to make repairs and replacement investments rather than repatriating profits. The fear until recently has been that a recovery led entirely by consumer demand could not be sustained.

If these early indications of an investment recovery are to be believed, the race is on to unblock the foreign aid finance before reserves drop below their current level of about three months of imports. At the end of September, there was a trade deficit of about \$600m, up from \$400m in the first half of the

year and the current account stood marginally at a deficit of \$200m, up from a deficit of \$100m.

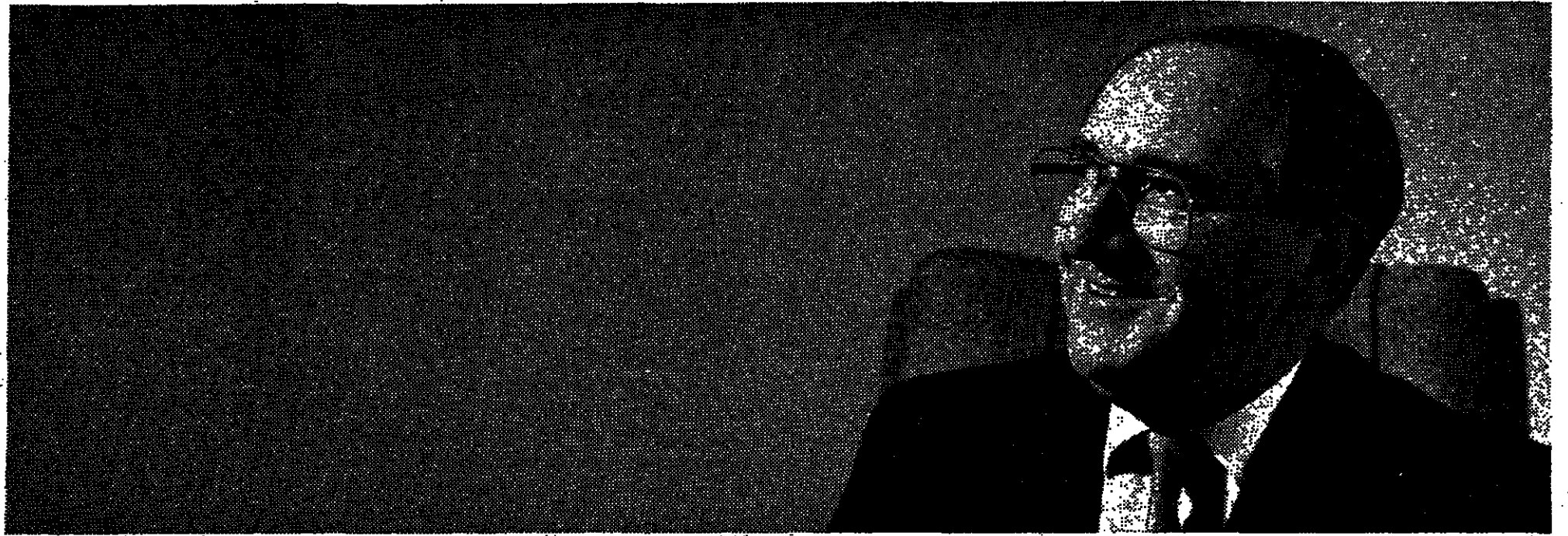
A sharp fall in stocks of raw materials and intermediate goods, probably because of strong demand, suggests imports are likely to continue rising fast as the recovery takes hold. "It is a better quality of problem than this time last year," one foreign economist said, referring to the sluggish economy in 1986.

Once the balance of payments threat became apparent - and after prompting in early November by donors led by the World Bank - the Philippine Government moved swiftly. Mr Fiorello Estuar was appointed special adviser to the president with a brief to clear bottlenecks both in

identifying projects and implementing them. The Government itself had underspent its budget by 50 per cent by the end of September because of poor project implementation.

The undrawn but committed funds are from the World Bank (\$600m), Japan (\$600m), the Asian Development Bank (\$600m) and the US (\$300m), about 10 per cent of which is in the form of grants, Mr Estuar said. None will release funds unless there is a valid project.

As too often in the Philippines, where the government sometimes appears to relish tripping from the brink of one crisis to another, the right action is finally being taken but very late in the day.



Sir Bryan Nicholson, recently appointed Chairman of the Post Office

## The Chairman's Statements:

Extracts from Sir Bryan Nicholson's introduction to Post Office half year results.

**"SERVICE EXCELLENCE IS MY NUMBER ONE PRIORITY. ALL ELSE FLOWS FROM THAT."**

**"It requires a consistent effort over a long period of time to achieve and maintain good service. Quality has to be in the eye of the beholder"**

**"I MEAN TO DEVELOP TAILOR-MADE SERVICES TO MEET CUSTOMERS' SPECIAL NEEDS"**

**Half-year report:** Post Office half-year results show group profits of £46m for the six months from April to September, on the current cost basis, before taxation and interest payable on long term loans.

Although this result shows an increase over the first half year of the previous year, it is comparable with the same periods of four of the past five years.

Last year's results for the first six months - at £21m, were lower than usual, while the second half of the year was exceptionally strong. It is not expected that this pattern

**"Our success has to be earned anew every day by superior, uninterrupted service to our customers"**

**"I want to complete the transformation of the Post Office into a successful, customer driven, commercially-orientated business, profitable and with secure employment"**

**"I shall push ahead with the necessary changes in the way we do business. There is no percentage in standing still in today's business world"**

will be repeated in the current financial year.

This financial year there will be no basic letter price increases. Over the full year there will be additional costs to provide the extra resources, including staff and transport, necessary to handle the growth of mail, along with expenditure of £18 million on measures to improve service. This will inevitably affect the level of profitability in 1987-88, but the full year outturn should be broadly similar to last year



In business to serve you.

## Israeli forces lack riot control skills

BY JUDITH MALTZ IN JERUSALEM

THE METHODS used by Israeli troops to control demonstrators in the past week, especially the resort to live ammunition, have drawn widespread international criticism.

Israel, unlike most other countries, has no special riot control unit. Many casualties could have been avoided, it is argued, had the army been properly equipped and trained in riot control.

Mr Yitzhak Rabin, the Defence Minister, said last week: "We are using tear gas. But whenever it is not sufficient, we are determined to maintain law and order."

This has already cost the lives of at least 15 Palestinians and injured more than 100 others in 13 days of acute unrest and violence, among the worst to have shaken the West Bank and Gaza Strip.

Violent demonstrations, such as those erupting in Jerusalem in recent months over the screening of films on the Sabbath, are handled by ordinary policemen. Disturbances in the occupied territories, however, remain the sole responsibility of the army.

Along with the conventional riot control equipment which the police have at their disposal - wooden clubs and tear gas - Israeli soldiers are equipped for these purposes with rubber bullets and light weapons, such as Uzi submachine guns and M-16 rifles.

Water cannons, the latest acquisition of the Jerusalem

police force, have proven so effective in dispersing ultra-orthodox Haredi demonstrators that orders have been made by South Africa for the kibbutz-manufactured armoured vehicles. These cannons shoot out powerful jets of water mixed with paint and sometimes tear gas.

They have yet to be put into use, however, in the occupied territories, although the army says funds have already been allocated for their purchases.

As recent days have indicated, live bullets - in spite of the announced strict limitations on their use - have become the most common method of dispersing riots in the West Bank and Gaza Strip.

According to a leaflet put out by the army's high command for distribution to all soldiers, standing orders are that warning shots should only be fired in the air to disperse a demonstration as a last resort.

With such stringent instructions, the obvious question is why have there been so many casualties? And why do Israeli soldiers keep finding themselves in life-threatening situations?

An army spokeswoman said: "In the midst of a big violent riot, it's difficult to aim." A Shin Bet agent, however, was filmed on Israeli television this week aiming his Uzi submachine gun directly at Palestinians youths and opening fire.



## AMERICAN NEWS

## Nicaragua talks continue in spite of Contra attack

BY OUR FOREIGN STAFF

THE Nicaraguan Government and US-backed Contra rebels were due to hold a second round of peace talks yesterday, after rebels claimed a victory against the left-wing Sandinistas.

In an attempt to give military teeth to their political demands, the Contras attacked three towns in northeastern Nicaragua on Sunday and claimed to have captured them, destroying military installations.

Rebel political leader Mr. Adolfo Calero said 7,000 rebels were involved in the operation which he called "the first great step towards the liberation of Nicaragua."

In Managua, Defence Ministry sources confirmed that the mining towns of Siuna, La Rosita and Bonanza, about 150 miles north east of Managua, had been attacked, but there were no immediate details of casualties or damage.

The attacks came on the eve of a second round of indirect peace negotiations in the Dominican Republic aimed at arranging a truce in the fighting, which pits Nicaragua's Soviet-backed army against an estimated 12,000 Contra armed, trained and funded by the US.

On Sunday, the White House and the US Congress agreed to

provide \$3.1m in new aid to the Contras.

The talks, the result of a peace accord for ending Central America's conflicts, were expected to begin after the arrival yesterday of Nicaragua's church primates Cardinal Miguel Obando y Bravo.

He was due to meet the rebel delegation at the palace of the Archbishop of Santo Domingo and hold a separate meeting there with officials of the ruling Sandinista National Liberation Front (FSLN) and its three foreign advisers in the talks, a West German politician and two Americans.

Mr. Hans-Juergen Wischniewski, a leader of West Germany's opposition Social Democratic Party, Harvard University professor Roger Fisher and lawyer Mr. Paul Reichler, were also to meet face-to-face with the rebels, something Sandinista officials have refused, not wanting to give added recognition to the rebel cause.

The talks followed the announcement this week of a two-day truce for Christmas, the first mutually-agreed ceasefire in six years of fighting. But few observers expected a swift accord for ending the bloodshed which has claimed more than 40,000 Nicaraguans since 1981.

## Northrop 'did not fully test missile components'

THE NORTHROP Corporation, a leading US defence contractor, failed properly to test components on guidance systems for at least 29 cruise missiles, according to a congressional study released yesterday. AP reports from Washington.

An Air Force review of the matter led to a criminal investigation by the Justice Department, said the General Accounting Office report.

The GAO, the investigating arm of Congress, prepared the report for the House of Representatives Armed Services Committee.

The disclosures parallel those made by another House panel, which uncovered test falsification in Northrop contracts for the cruise and MX missile programmes.

The vice-chairman of North-

rop, Mr. Frank W. Lynch, told the Commerce and Energy subcommittee on oversight and investigation on October 28 that 30 employees of the branch that produced the improperly tested guidance components had been fired, demoted or otherwise disciplined.

Air Force officials investigating Northrop's cruise missile contract found that flight data transmitters (FDTs) "were not properly tested, some that failed tests were not properly reported or repaired, and others that were reported were not fully tested," the GAO report said.

It said that 1,715 of the transmitters had been manufactured and that the Air Force had "for retesting at no cost to the Government."

## US budget deficit 'set for sharp increase'

THE US budget deficit, after falling significantly in the 1987 financial year, will probably climb sharply in 1988, a private business research group said in a report published yesterday.

The Conference Board said the deficit, which was cut to \$148.1bn in 1987 by "unprecedented government tax revenues and one-shot budget savings by Congress," seemed likely to jump to \$186bn in fiscal 1988.

"The nation is rapidly running out of band aids, which have been used one after the other, in massive quantities, to control the deficit," said Mr. Delos Smith, the board's federal budget specialist.

The group's study said the most recent cut in the deficit was attributed to an additional \$30bn to \$40bn in corporate and personal income taxes under the Tax Reform Act of 1986.

Other cuts came from "one-time" congressional measures, including the sale of federal assets and the postponement of military pay, farm subsidies and health care payments.

"Government revenues in 1988 will unlikely match recent levels that have been heavily distorted by the 1986 tax reform bill," Mr. Smith said.

He added that government outlays would be increasingly difficult to control in the absence of a viable long-term programme to curtail spending.

"With both inflation and interest rates heading higher in 1988, government policymakers will find themselves in a new financial squeeze," Mr. Smith said.

The board said its analysis emphasised that an economic slowdown next year would cut government revenues sharply, and the deficit would soar if the economy suffered a recession.

"The harsh reality is that the federal government, like the general population, is consuming too much and producing too little," Mr. Smith said.

## Ghosts of policies past haunt Argentina

HOLLOW FOOTSTEPS reverberate along the darkened and drafty corridors of the Argentine Economy Ministry building. It is late evening and the head of the nightwatchman is slumped on his chest. He snores lightly. On the fifth floor a table lamp burns in the minister's office.

Working late into the night as usual, the man sitting at the wide paper-filled desk takes off his thick, tinted lenses for a moment to rub his eyes, smarting from the strain of staring at so many closely printed figures. He looks into the gloom at the far side of the office and to his shock an indistinct but horrifying figure is standing there.

Before he has a chance to speak the shape says: "I am the ghost of inflation past... and before the night is through, you will have the visit of two others... that of policy present and that of policy future. You are to listen to everything we tell you."

As Argentina stops for the Christmas break, Mr. Juan Sourouille, the Economy Minister, is well aware that he has only a brief respite from the incessant and mounting pressure on his economic policy - a heterodox anti-inflation strategy that is looking increasingly shaky and unsustainable under a combination of mounting political opposition and disappointing economic results.

After almost three years in office, the future of the longest surviving economy minister for decades hangs in the balance.

A few figures serve to explain why. The standby loan agreement signed with the International Monetary Fund at the beginning of the year envisaged



Sourouille: scapegoat

a reduction in the fiscal deficit to only 2 per cent of gross domestic product by the end of 1987. It is in fact closer to 7 per cent of GDP.

Inflation was to be reduced to 42 per cent for the year, down from 81 per cent in 1986. Instead it has jumped to 180 per cent for the year. GDP growth targeted at a minimum 4 per cent is unlikely to reach 3 per cent.

The original IMF agreement foresaw automatic disbursement of additional funds if the 4 per cent target could not be met - instead the standby loan is now running about six months behind schedule as ministers and bankers argue over the figures and the two-monthly targets.

A targeted foreign trade surplus of \$2.5bn (\$1.4bn) has managed only just to reach \$1bn. In addition, a strategy of export-led growth has been undermined by

poor world commodity prices and the prospect of a downturn in the world economy next year.

The Government's economic policy has thus proved to be its political Achilles heel - the Radical Party's defeat in elections last September has been widely blamed on Mr. Sourouille's management of the economy and his support within the ruling Radical Party is at an all-time low.

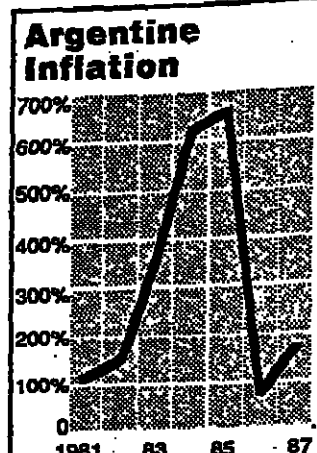
According to Mr. Guillermo Feldberg, a former Central Bank director and one of the leading proponents of a neo-Keynesian alternative economic plan based on boosting domestic demand, Mr. Sourouille and the economic team are now viewed as "an alien body within the party."

Mr. Mario Broderick, the Finance Minister and right-hand man of Mr. Sourouille, was booed and insulted continuously by hecklers at a Radical Party convention last month.

Reflecting the level of dissatisfaction, the party leadership decided unanimously that the economic commission of the party should draw up an alternative proposal to the present policy. Behind this decision there is deep concern that an unpopular economic policy could lose the Radical Party the 1988 elections.

Mr. Feldberg's plan is to stimulate housing construction, the automobile industry and public works projects in the provinces through self-financing credit policies and adjustments in taxation measures. Multiplier effects would stimulate demand throughout the economy.

The plan has been sharply attacked as being inflationary and unrealistic by the present



economic team, but this is denied by Mr. Feldberg.

"We have carefully worked out all the figures and we can demonstrate that there is a neutral effect on the fiscal deficit and the balance of payments and that the plan also falls within the framework of the IMF agreement," he said. He claims it would create 400,000 new jobs within two years.

Another proposal circulating in the Radical Party includes a more rapid opening of the economy to foreign competition and a speeding of privatisations. Another proposal is more drastic action on the foreign debt.

Mr. Enrique Garcia Vasquez, the head of the party's economic commission, denies that an alternative plan is being prepared. "It is a series of proposals designed to support the existing policy. The fundamental problem is to avoid a fall in growth, to avoid

the stop-go cycle in the economy, which seems to stop before it has a chance to get going, and to stimulate investment," he said.

A package of proposed tax reforms to cut the fiscal deficit in half is facing serious problems in the congress, where the Government no longer holds an absolute majority. The opposition Peronists have gutted some of the proposals and are intending to force an early debate on the 1988 budget.

According to one Peronist deputy, this will be a crucial debate as expenditure on servicing the foreign debt (expected to be nearly \$4.5bn in 1988) is at about 5 per cent of GDP, almost equivalent to the fiscal deficit.

The Peronist plan is to make significant cuts in this item. In effect a limited moratorium on payments for foreign debt. The party's policy alternatives are expected to be presented to Mr. Alfonsín in the New Year.

Negotiated agreements with the creditors, however, and the IMF have undermined Mr. Sourouille's strategy since he came to office in 1985. Those underpinnings are looking decidedly shaky as the promised results have failed to materialise. Mr. Sourouille is being made the scapegoat for their failure, whatever the degree of blame due to him.

"What do you want me to do?" the tired minister said to the ghost of inflation past now joined by the ghosts of policy present and policy future.

"You must listen to the party conscience," came their reply.

## Mexican exchange rate policy under the spotlight

BY DAVID GARDNER IN MEXICO CITY

THE MEXICAN peso has held steady since it was devalued eight days ago, spotlighting the studied indefiniteness of exchange rate policy in the anti-inflation package announced last week.

This has convinced some analysts that the Government intends to slow down the rate of inflation, even at the risk of using up a substantial portion of its estimated \$15bn currency reserves.

This conviction is bolstered by the fact that in the original "shock plan" version of the eventually adopted and much watered-down anti-inflation package, officials and analysts say that the intention was to fix the parity at its post-devaluation level and set aside a \$10bn war

chest to defend it.

In the tripartite, so-called Solidarity Pact announced last week between government, trade unions and the private sector, the administration asserts that the exchange rate will be used simultaneously to bring down inflation and to maintain Mexican industrial competitiveness and strengthen the balance of payments.

The policy of fast depreciation of the peso, however, pursued over the past two years to restore terms of trade ravaged by the collapse in the price of oil, Mexico's main export, has been the single main cause of inflation.

In 1986, the controlled rate for the peso against the dollar, used for 80 per cent of Mexico's for-

eign transactions, suffered a cumulative devaluation of 148 per cent against inflation of 108 per cent.

This year, after the devaluation last Monday, which raised the cost of dollars by 22 per cent, the cumulative devaluation of the peso against inflation is 140 per cent. Inflation to the end of November was running at 144 per cent annually, but must now be in the region of 160 per cent.

This depreciation policy, none the less, means that the peso has a cushion of undervaluation of about 50 per cent against a basket of currencies from its main trading partners.

In theory, therefore, this would be an opportune moment to fix the parity, or at least hold it relatively steady for a period,

to reduce inflationary pressures. In conjunction with the three other main pillars of anti-inflation policy - voluntary price and wage restraints and budget cuts - last week's poorly-presented package would then seem more coherent.

Too overt management of the exchange rate, however, risks speeding up the capital flight which resumed with a vengeance after the October Stock Market collapse and led to the current exchange rate crisis.

On the other hand, a failure clearly to explain policy risks further stoking the fires of rumour and speculation which has been a big feature of this crisis and the speed with which it has engulfed Mexico.

The Government disastrously

mismanaged the Bank of Mexico's withdrawal from the "free market" for dollars on November 18. Its technical reasoning was that it did not want to waste reserves defending an exchange rate used as a safety valve for speculation and for only 20 per cent of Mexico's foreign transactions.

This did not prevent Mexicans from assuming that a full devaluation was taking place, rushing to buy dollars and to hoard US dollars. The authorities, correctly, that prices would shoot up. The authorities' management of last week's "real" devaluation - of the controlled rate - showed little improvement in ability to adjust to public perceptions.

## Dollar fall stresses need to liberalise trade, says Dunkel

BY WILLIAM DUFFELL IN GENEVA

RECENT turbulence in financial markets, including the depreciation of the dollar, has given added importance to the negotiations on liberalising world trade now entering their second year, Mr. Arthur Dunkel, director-general of the General Agreement on Tariffs and Trade, said yesterday.

The stock market plunge in October had reminded everyone that the worldwide depression of the 1930s had been triggered by governments' resorting to trade protection, Mr. Dunkel said.

For politicians keen to correct exaggerated trade imbalances, the logical deduction was that frontiers should be kept open to trade. But, Mr. Dunkel warned, international debt problems, overshadowed recently by stock market and currency crises, also needed to be tackled more seriously than they had been so far.

GATT's director-general made his remarks while summing up progress during the first year of the Uruguay Round. Confronted by the sceptics, negotiators had set an extremely fast pace in tabling proposals, he said.

By arranging for a smooth passage next year to the more difficult task of reconciling their divergent positions, participating countries had sent a positive signal to the business world, Mr. Dunkel added.

At stock-taking exercises last week, the round's governing bod-

ies agreed a schedule for the initial meetings next year of the 14 groups negotiating on trade in goods and a programme of four meetings for the group handling services.

An invitation from Canada to host next year a mid-term review of progress by trade ministers, probably in Vancouver, had commanded widespread support.

A date in late November or early December is favoured by most governments. The advantage of injecting fresh political impetus to the round is generally recognised and it has been suggested that firm agreements in some areas could be ready for approval by the ministers.

The US in particular is looking for "measurable results" at the mid-term review but a few governments, including the French, have queried the value of holding such a crucial meeting at a time when in Washington, the Reagan Administration will be battling the effects of a new team after the presidential election.

A decision on the date and venue will be taken at an extraordinary meeting of the Trade Negotiations Committee on February 18.

It was not necessary to make the mid-term review a point of conflict, Mr. Dunkel warned yesterday. It would be counter-productive for negotiations to focus on the issue.

## Japan to table proposal for farm reform soon

JAPAN's promise to table a proposal for the reform of agricultural trade with General Agreement on Trade and Tariffs before the end of the year will be honoured, a Japanese official said yesterday, William Duffell reports from Geneva.

The text of a proposal has been cleared by both the foreign and agriculture ministries in Tokyo but the finance ministry has been too busy with budget appropriations to study it in detail, the official said. The text will not, however, be put forward before Christmas.

Japan, under strong pressure from the US and other countries to liberalise its agricultural markets, will be the last of the big trading blocs to submit its recommendations to the group negotiating farm trade reform

under GATT's Uruguay Round.

Earlier this month, Japan agreed to obey a ruling by the GATT council that it scrap its import curbs on processed farm products in only eight of the 10 areas in which it was judged to be at fault.

Both the new government of Mr. Noboru Takeshita and that of his predecessor, Mr. Yasuhiro Nakasone, have run into trouble with Japan's politically powerful farmers' lobby over changes to agricultural supports. But Mr. Soukei Uno, the Foreign Minister, this month renewed Japan's pledge to table a proposal with GATT before the end of the year.

Mr. Arthur Dunkel, GATT's director-general, will be on hand between Christmas and the New Year to receive the Japanese paper.

## Canute James, recently in Miami, explains why Washington is rethinking an economic programme Caribbean trade initiative fails to reap benefits

A CARIBBEAN trade initiative, sponsored by Washington, is to be recast after failing to bring about the benefits that both sides intended. Cynics in the region have suggested that the fault lies with the US, whose principal motive, they say, was not economic but political and aimed at Cuba or the Soviet Union.

For the governments of 22 countries, and for policy makers from the US State Department and the Department of Commerce, a series of public hearings which begin on Capitol Hill this month, and which will continue into next year, has assumed more than passing importance.

The hearings are being convened by the sub-committee on trade of the Ways and Means Committee of the US House of Representatives. At issue are proposals to improve the Caribbean basin initiative (CBI), the Reagan Administration's trade programme for the region which allows countries designated by Washington to ship a range of products duty free to the US.

The CBI was implemented in 1984, and is set to run for 12 years. It is significant that participants in the hearings include some Caribbean trade ministers. One of the problems of the CBI, say its critics, is that it was formulated with little consultation with those intended as the beneficiaries.

They point to the relative success of the Lome convention negotiated between the EC and developing countries, including some in the Caribbean, which allows preferential access for a range of products to the EC market.

"US strategy seeks political stability and self-sufficiency in the region," Mr. Richard Holwell, US deputy assistant secretary of state, told a conference in Miami on trade with the Caribbean.

"The United States Government has given \$4bn in bilateral assistance to the region in the past three years. Assistance to the Caribbean basin countries is one of our highest priorities."

The CBI was intended to be one major pillar of this assistance. If the Caribbean countries could export more to the US without damage to the US industry, the argument ran, they would be economically stronger, politically more stable and generally less dependent on official American aid.

But the figures show the CBI has failed to improve Caribbean earnings from the US market. In 1982, the US had a trade deficit of \$1.5bn with the region. By last year this was reversed to a surplus of \$105.4m. Imports from CBI beneficiaries declined from \$8.8bn in 1983 to \$8.1bn in 1986.

Latest figures show a continuing decline in the value of US imports from CBI beneficiaries. In the first six months of this year, US imports were valued at

\$3,222bn, 6.2 per cent below the corresponding period of last year, while US exports to the area during that period rose 7 per cent to \$3.16bn.

The softening of the oil market and a reduction in the US super import quotas have affected the region's earnings, but there is debate between Washington and the Caribbean about whether this explains the decline in the value of trade.

"There is concern that total exports to the region are not the result of structural changes in the trading of petroleum products," said Mr. Holwell. "In 1983, petroleum accounted for half of the trade with CBI countries. But US imports of non-traditional products between 1983 and 1986 grew by over 30 per cent as petroleum dropped from 56 per cent to 22 per cent of total share."

But Mr. John Compton, Prime Minister of St. Lucia, argues: "The drop in petroleum prices is not the full explanation as the trend towards reduced shipments to the US is evident in non-oil exporting countries."

Mr. Compton also criticises concentrated attention on omissions from the list of products granted duty-free access. More recently, there have been regional attacks on what is perceived in the Caribbean as a tendency towards increasing protectionism eroding the limited benefits of the trade programme.

President Oscar Arias of Costa Rica says: "It is a matter of increasing concern that the overall effectiveness of the programme is being undermined by certain other provisions of US

legislation which generate uncertainty about continued access to the US market, thereby inhibiting trade and trade-related investment."

Textiles and garments, footwear and other leather goods are listed among products ineligible for preferential treatment under the CBI. There were US fears that domestic industry could be damaged by a flood of cheap Caribbean imports.

The argument is rejected by some Caribbean leaders, such as Mr. Edward Seaga, Prime Minister of Jamaica, on the grounds that the region does not have the productive capacity to damage US industry. Rather, the region argues, the additional earnings from a small part of the American market could ease financial and social problems, such as unemployment.

Mr. Ray Robinson, Prime Minister of Trinidad and Tobago, argues that there is little the CBI can do to reverse a leakage of foreign exchange from the region to North America and other industrial regions. "The Caribbean and the CBI cannot be blamed for the region's economic problems," he says.

Mr. Richard Bernal, manager of economic research for the Workers' Saving and Loan Bank of Jamaica, says the trade situation

has been worsened by a lack of new US investments in the region.

The structure of the CBI has inevitably given an advantage to the larger, slightly more developed countries. The small islands of the eastern Caribbean, for example, have always been more than a step behind others such as the Dominican Republic, Costa Rica and Jamaica.

Not surprisingly, of the 22 listed beneficiaries, the Dominican Republic, Costa Rica and Jamaica account for about half of US imports under the CBI.

Changes proposed by congressmen include partial duty-free access to products now ineligible for CBI treatment, and unlimited tariff exemption for articles manufactured, assembled or processed from US materials or components. They also want US quotas, reduced progressively over the past four years, to be restored to levels prevailing when the CBI was implemented.

They also want the CBI's twelve-year life span to be doubled, and special tariff treatment for ethanol produced in the region and shipped to the US. Given the parlous state of many Caribbean economies, long dependent on uncertain commodity markets, there is hope that the reformed CBI, if it is passed through the legislative maze in Washington, will make up for the failures of the first effort.

## Eximbank restores Iraqi cover

BY ALAN SPENCE

THE US Export-Import Bank has agreed a return of short-term cover to Baghdad involving guarantees for up to \$200m (\$111m) of commercial bank and supplier credit.

Eximbank withdrew cover to Iraq last year as the country fell into arrears, partly, some suggest, due to earlier war damage to the computer facilities at the country's state-owned commercial bank, Rafidain Bank.

Various Iraqi ministries are allocating the \$200m, with the bulk of the Eximbank guaranteed credits likely to fall in a 30-day period. When Iraq's payment record on these credits is assessed, it is thought Eximbank may consider the preparation of medium-term cover to back US capital goods exports to Baghdad.

Eximbank officials say the agency agreed in principle to return short-term cover to Iraq in May, after the country had cleared arrears.

Moreover, the bank continues to be impressed by Iraqi repayments of US commodity credit corporation advances for food imports of \$800m-\$1bn annually. "They have never missed a dime," one official said.

However, new cover could not be effectively introduced until Eximbank received an assurance of guarantees for credits from the Iraqi Government. This has been received.

Eximbank's action moves the agency's policy on Iraq towards that of the Export Credits Guarantee Department, which is covering for short-term risk and is continuing to take a favourable view of medium-term risk.

Following previous ECGD-backed lines involving Morgan Grenfell and the Midland, ECGD is preparing to back another \$175m line for Baghdad next year.

Of this, \$100m will comprise a general line and the remainder will cover pharmaceuticals. Baghdad has yet to appoint an arranging bank for the finance.

It is thought that Eximbank's move reflects a view among the agency's risk analysts that it will not suffer a big defeat in the Gulf war with Iran.

Moreover, this seems to be borne out by recent changes in Eximbank risk rating for Saudi Arabia, the UAE and Kuwait. Despite the military turmoil in the region, it is understood that US exporters are paying Eximbank exposure fees commensurate with an A category status for these states, compared with B status fees which prevailed until last month.

Exporters to Iraq will probably be in E status fees, plus a surcharge - E is the category for which Eximbank cover still exists.

## Swissair to buy six more MD-11s

By Michael Dwyer, Aerospace Correspondent

SWISSAIR, the Swiss flag airline, has approved the purchase of six more McDonnell-Douglas MD-11 long-range three-engine jet airliners, and one more MD-81 twin-jet, worth a total of more than \$600m.

This brings to 12 the total number of MD-11s on firm order for Swissair, with another six MD-11s still on option. The airline will use the MD-11s to replace the large fleet of McDonnell-Douglas DC-10s it operates.

The Swissair deal brings total firm orders (excluding options) for MD-11s to 18 this year to 53, worth about \$5.3bn, with options for an equal number of aircraft.

The US manufacturer says that nearly 75 per cent of the engineering drawings for the MD-11 have been released to the production shops.

## Chevron, Texaco in oil search deals with India

BY D.P. KUMAR IN NEW DELHI

THE INDIAN Government has signed three contracts with a consortium of Chevron and Texaco of the US for offshore oil exploration in the Krishna-Godavari and Palhar basins.

Chevron-Texaco, along with six other companies had bid for offshore blocks - after the Government had offered 27 offshore blocks in March 1986 for exploration by foreign companies.

The contracts covering three blocks provides that the entire exploration risk will be borne by the consortium.

If no oil is discovered, the companies can terminate the contract. The oil companies are also required to share crude oil with the Government after they have recovered their costs. This sharing will be on a sliding scale.

The companies will also share with the Government a higher proportion of their profits as the economics of their project improves.

• Hilary Barnes reports from Copenhagen: A development plan for two small gas fields, Lulu and Lulu West, in the Danish sector of the North Sea was announced by the Danish Government last week.

The fields, which will be developed by a consortium of the North Sea Petroleum Company (NSPC) and Hilary Barnes, have recoverable reserves of about 25bn-30bn cubic metres. Production is expected to start in the mid-1990s, but the consortium, comprising A.P. Moller, Texaco and Shell, said this would depend on market demand.

The development will consist of a production platform with 18 wells, which will be connected to a processing and residence platform.



## Liberal leaders agree to reconsider Alliance title

BY PETER RIDDELL, POLITICAL EDITOR

LIBERAL leaders yesterday attempted to rally rank-and-file support for the proposed merger with the Social Democratic Party by promising to reconsider the suggested short title of the Alliance.

This follows criticism of the merger terms, especially the word Alliance, at a meeting of the Liberal Party Council in Northampton last Saturday.

On the SDP side, Mr John Grant, a former SDP and Labour MP, who quit the negotiations before they ended, criticised the Liberal negotiators as "frustrated and feeble-minded."

He urged outright opposition

to the merger terms, both at an SDP conference in January and at a later ballot of members.

A further complication appeared yesterday with discussion by the Liberal Party's national executive of the suggestion that the package should be approved by at least 75 per cent of those voting - rather than a simple majority - in February's ballot of all party members.

In a joint statement yesterday Mr Adrian Slade, the Liberal president, and the Mr Tim Clement-Jones, the party chairman, emphasised that the Liberal negotiators were now engaged in a consultation process which

would be "taking full account of all the views expressed by Liberals throughout that process."

Liberal leaders believe that, for all the current vocal expression of reservations on particular points, and over the title, the party assembly in late January will accept the overall package provided members are sure the negotiators have been seen to do their best.

Nevertheless, SDP and Liberal leaders fear that, even if the package is approved, the new party will be launched against such a background of bickering and doubts as to deter potential supporters.

## Council abandons Shell boycott

Financial Times Reporter

LEWISHAM COUNCIL in London yesterday abandoned its proposed boycott of Shell UK's services after the High Court ruled that the council had acted unlawfully by trying to force the company to withdraw investment from South Africa.

The council promised not to implement its boycott decision, taken in March this year, after two senior judges granted Shell UK a declaration that such a move was outside a council's power.

Lord Justice Neill, sitting with Mr Justice Taylor, ruled that the council was entitled to decide that it was in the interests of good race relations to cease trading with Shell UK because of its links with apartheid.

But its additional aim to change Shell's policy toward South Africa was "extraneous and impermissible" and had the effect of violating the decision as a whole, said the judge.

In what is being seen as a test case over local-authority action against apartheid, Shell UK said it had been unfairly "singled out" by the council.

## Surge in business helps Post Office double pre-tax profits

BY TERRY DOOSWORTH

THE POST Office more than doubled its pre-tax profits in the first half of this year as a result of price increases and a surge in the traffic of letters.

In the six months to September, the company's letters business, counter services and Giro-bank activities made profits of £46m, against £21m in the same period last year, while turnover rose to £1.79bn from £1.62bn. Net profits, after payment of tax and interest on long-term loans, rose to £24m from £8m.

The Post Office emphasised yesterday, however, that the year as a whole was unlikely to show much improvement in

profits for the full year on the performance in the last financial year to March, when it made £170m pre-tax.

In the first six months of last year, it said, profits had been kept artificially low by price restraint and the 1p rebate on the second-class stamp - factors that pushed the letters service into net losses of £4m. In the second half, the company experienced a surge in profitability caused by an unprecedented increase in volume and a letters price increase in October 1986.

The company has given a commitment not to increase prices

during the current financial year, and although the number of letters handled is still rising at 6.5 per cent annually, it is expected that profits should be "broadly similar" to the outcome of the previous 12 months.

The Post Office is to spend £18m during the course of this financial year, to end March, on improvements to the letter service, including more second deliveries a day.

The detailed half-year figures show that the letters service made pre-tax profits of £26m against £2m in the previous year.

## Biggest trawler for 12 years launched

By Kevin Brown, Transport Correspondent

THE FIRST foreign-going trawler to be built in the UK since the 1975 "Cod War" was launched yesterday at Cochrane's Shipyard, in Selby, North Yorkshire. The 128-foot Thornella is the first of two open-stern trawlers being built by Cochrane's for J. Marr (Fishing) of Hull, a subsidiary of the Australian conglomerate Howard Smith.

The ships, worth a total of £5m, will fish for cod, haddock and coley off Rockall and north of the Shetland Islands in winter, and off northern Norway in summer.

The launch marks the first reinvestment in middle or deep-water trawlers by UK owners since British fishing rights off Iceland were curtailed.

Mr Charles Marr, a director of J. Marr, said the company would monitor the performance of the trawlers for two years before deciding whether to replace the rest of its fleet of six ships.

Mr Marr said other trawler companies would also be forced to decide soon whether to replace existing ships, and further orders might be placed shortly.

The fleet is unlikely to expand, however, because of the loss of fishing grounds and strict enforcement of EC quotas.

## Two stockbroking firms to merge

BY CLIVE WOLMAN

TWO OF London's oldest stockbroking firms, Laurence Prust and Foster & Braithwaite, yesterday agreed to merge.

The deal is part of an expected increase in the consolidation of the securities industry in the wake of the stock market crash of October.

Laurence Prust, 85 per cent owned by Credit Commercial de France, is acquiring Foster & Braithwaite by offering its partners a mixture of cash and shares.

Mr Graham Ross Russell, Laurence Prust managing director, said the rationale behind the move was to give his firm access to Foster & Braithwaite's private-investor clientele while allowing Foster & Braithwaite to use and disseminate his firm's research. The two firms had discussed merger for the past six months.

Last year Laurence Prust's private-client business had been spun off into a separate firm at private-client partners' request, in preliminary steps to Big Bang reforms last year. The merger

will allow Laurence Prust, which concentrates on research for institutional investors and corporate finance, to return to that market.

Foster & Braithwaite, based in London, advises 7,500 private clients on assets worth about £500m.

The firm, the history of which, like that of Laurence Prust, dates to the 18th century, will be required to end its policy of only admitting members of the family to the partnership.

But its additional aim to change Shell's policy toward South Africa was "extraneous and impermissible" and had the effect of violating the decision as a whole, said the judge.

In what is being seen as a test case over local-authority action against apartheid, Shell UK said it had been unfairly "singled out" by the council.

The firm, the history of which, like that of Laurence Prust, dates to the 18th century, will be required to end its policy of only admitting members of the family to the partnership.

## Highland Express has debts of £3m

BY JAMES BUXTON, SCOTTISH CORRESPONDENT

HIGHLAND EXPRESS, the low fares transatlantic airline that went into liquidation on December 11, has debts to outside creditors of almost £3m, a creditors' meeting was told yesterday.

A consortium has been formed in the hope of reviving the airline in some form in the new year. Sir Ian MacGregor, the former head of British Coal who chaired Highland Express, has agreed to lead it.

The joint liquidators, Mr Robin Wilson and Mr Christopher Morris of accountants Touche Ross, told creditors yesterday that the airline had a total deficiency of £8.39m. That includes £5.4m in capital owed to the parent company, Highland Express plc.

The airline owes £2.4m to creditors such as the British Airports Authority, the Civil Aviation Authority and Sabena, the Belgian airline, which has been overhauling Highland Express's only aircraft, a leased Boeing 747. Some £400,000 is owed to people who have paid for tickets to fly with Highland Express.

Mr Randolph Fields, the US lawyer, who launched the airline this year, had hoped that it could fly again before Christmas.

But that plan has been abandoned. The consortium, which includes Mr Fields and Mr Greg-

ory Copley, an Australian businessman who heads Allas-Ferguson Shipbuilders at Troon, Ayrshire, is trying to raise £5m in fresh finance for a relaunch next year.

Mr Robin Wilson, one of the liquidators, said that he could wait until well into next month for the consortium to approach him with a proposal to acquire some of the airline's assets. It would be in the creditors' interests for such a rescue bid to succeed, he said.

The success of any rescue attempt is likely to depend on what arrangement can be made with Citicorp Industrial Credit, the leasing company that owns the aircraft, he said. Highland Express has said that unexpected defects with the aircraft seriously delayed the launch of the airline and caused heavy initial losses.

Sir Ian MacGregor, for a few days chief executive of the airline before it went into liquidation, said at the weekend that he was becoming a non-executive chairman, because staff had asked him to. He pointed out that he had fallen well short of raising the £3m that had been needed to keep the airline flying, and that the sum required was now £5m.

## Caterpillar launches self-guided transporter

BY NICK GARNETT

GEC of the UK and Caterpillar, the US earth-moving machinery maker, announced the commercial launch yesterday of what is claimed to be one of the first systems of automated guided vehicles that does not use wire guidance.

Called self-guided vehicles, the shopfloor transporters use dead reckoning for basic guidance with laser scanning to check their exact location as they move around the factory or warehouse.

The SGV has a mini-computer on board which talks to a central computer. The movement of the SGV is logged on a factory "road

map" displayed on a terminal screen.

The world-wide source for the vehicles will be the Caterpillar production plant at Leicester. The vehicles are based on a Caterpillar lift-truck chassis.

The vehicles have been under test at a Caterpillar plant in the US and at a small factory in the Midlands.

The two companies said the system would be the first automated handling system for rent to users. That guaranteed the standard of maintenance back-up and made it suitable for many small businesses, the companies added.

## State earns more abroad

BY PHILIP STEPHENS, ECONOMICS CORRESPONDENT

NATIONALISED INDUSTRIES' overseas earnings rose by 11 per cent, to just under £2bn, in the year to June, the seventh successive year in which they have boosted their foreign currency receipts.

The Nationalised Industries'

Overseas group said the bulk of the earnings came from direct exports by companies ranging from British Steel to the electricity industry.

However, the corporations also earned foreign currency from consultancy contracts.

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## EXTRACTS FROM THE LETTER TO SHAREHOLDERS FROM MR PATRICK POLLET

By the end of the first 1987-88, half-year the Redoute Group achieved with comparable data, a turnover including taxes of 5,450 million francs (+8.9%) and a net profit of 36.4 million francs against 33.1 (+10.1%).

**Goods Sector**  
The Redoute Catalogue economic unit (Redoute Catalogue, S.N.E.R., Redoute Catalogue Benelux, Movitex and Cytillus) show a turnover including taxes of 4,296 million (+9.8%) and a net profit of 40.2 million (+8.8%). By November 30, 1987 (9 months of activities), the turnover reaches 17,190 million (+9.5% against the same period of the preceding fiscal year). The Vestro-S.I.A.D. unit achieved a global turnover of 232 billion lire (+16%) and a net profit of 774 million lire (+29.4%). By November 30, 1987 (9 months of activities), the turnover reached 360 billion lire (+18%).

**Other activities** - Taking into account the arrangements which we will have to make before the end of the year concerning Editions Rombski, we have made at the group level, a provision for loss and expenses of nearly 10 million francs.

**Services Sector**  
Finaret - The results of the first six months show a net increase: net profit of 115.6 million (+51.4%). End of November (11 months of activities) the financing granted reached 13,300 million (+34%). The insurance companies La Cene and the brokerage company Redoute Assurances have carried on their expansion with total premiums of 125 million (+36%) for the first six months of the year. Following the various Stock Exchange and monetary shocks, the present situation forces us to be more cautious. In the past we have been able to verify that our distribution system was traditionally developing more rapidly than the other forms of trade, even during the periods of slowing down of the consumer activities. We therefore still hope to end the current year with an increase of the consolidated turnover of around 8% (+8.1% at the end of the first nine months).

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## UK NEWS

## HIGH COURT BACKS UNRESTRICTED QUOTATION OF SPYCATCHER

## Ruling puts press freedom first

BY RAYMOND HUGHES, LAW COURTS CORRESPONDENT

NEWSPAPERS should be free to publish allegations made by Mr Peter Wright, a former officer of MI5, the domestic security service, in his best-selling memoirs, *Spycatcher*, a High Court judge ruled yesterday.

Mr Justice Scott said that factors in favour of press freedom were "overwhelming" now that *Spycatcher* had been published worldwide.

Any damage that Mr Wright's allegations might cause to Britain's national security must already have been inflicted, the judge said.

He rejected applications by Sir Patrick Mayhew, QC, the Attorney-General, for permanent injunctions against three newspapers - the *Guardian*, *Observer* and *Sunday Times* - which have been prevented by temporary injunctions from publishing Mr Wright's allegations.

The Government is to appeal against the ruling and the Court of Appeal has proposed January

28 for the hearing of the appeal. Mr Justice Scott extended the temporary injunctions until that date.

It was the second defeat in 24 hours for the Government in its court battles to suppress *Spycatcher*. Earlier yesterday the New Zealand Court of Appeal had refused an injunction to stop a Wellington newspaper publishing extracts from the book.

Referring to an allegation in *Spycatcher* that MI5 officers had plotted to destabilise the government of former prime minister, Mr Harold Wilson, Mr Justice Scott said that it would be objectionable if such an allegation could not be placed before the citizens of the UK when it was known to people in virtually every other country in the world.

He said that the absolute protection of the security service for which Sir Robert Armstrong, the Cabinet Secretary, had argued "could not be achieved this side

of the Iron Curtain."

The judge also rejected the Government's argument that it should not be exposed to the sure and embarrassment by the reporting of Mr Wright's allegations.

The purpose of the duty of confidentiality owed by members of the security service was to enable MI5 to operate efficiently, not to save the government of the day from pressure and embarrassment, the judge said.

Mr Peter Preston, editor of the *Guardian*, said he was "absolutely delighted" with the result.

"It is good to have a proper, well thought-out and carefully documented judgment showing that people's right to be in a democracy does matter and has weight with the judiciary," he said.

Mr Donald Treford, editor of the *Observer*, said the judge's "overwhelming concern" for press freedom was a long-over-

due statement from the judiciary.

Mr Antony Whitaker, the *Sunday Times* legal adviser, said the judgment vindicated the paper's belief that the British public should be able to read about Mr Wright's allegations.

The Government's decision to appeal was criticised by Labour Party leaders, including Mr Roy Hattersley, the Shadow Home Secretary. "It is now simply a bullying tactic to make life as difficult as possible for newspapers who did something which the Government does not approve of," he said.

"The Government will continue to look foolish until they finally accept that they should and what is now becoming the *Spycatcher* farce. But instead they are going on with this absurd case solely to save Mrs Thatcher's face," Mr Hattersley said.

Judgement details, Page 8

## British Gas takes control of Bow Valley

BY DAVID WALLER

BRITISH Gas is investing \$340m in Bow Valley Industries, the diversified Canadian energy and services group, giving the British utility effective control of one of the largest oil and gas exploration companies in Canada.

The move fulfils a long-held ambition on the part of the British company, which intends to diversify into oil exploration and production. It first announced its intention to acquire control of the company, based in Calgary, Alberta, in August this year but the deal was blocked in October by Investment Canada, a Government body which supervises foreign investment in Canadian industry.

The transaction has been

restructured so that it no longer requires this body's approval. British Gas will acquire management control of the Canadian company, with the right to nominate a majority of the directors, but it will not have voting control.

British Gas will make a tender offer for just under a third of the Canadian company's voting shares at C\$20 a share, a total of C\$320m, and will inject a further C\$517m into the company in return for non-voting convertible shares.

As a result, British Gas will own 51 per cent of Bow Valley's total equity and will be entitled to 51 per cent of the company's dividend income. British Gas has

introduced certain safeguards to preserve its control in the event of a hostile takeover for Bow Valley. Canada's approval is required only if a foreign company acquires more than a third of the voting shares in a Canadian energy company. But the regulator must be consulted if British Gas attempts to put its safeguards into effect.

Under the terms of the latest agreement, British Gas can effect the conversion of the convertible shares into voting shares, thus giving it a voting majority. This can only happen when a proposition is put to Bow shareholders which does not have the support of the Bow Board. In practice, this provision would apply in the

event of a hostile takeover bid. However, Investment Canada would have to be consulted should this happen, and British Gas has not been given any assurance that the regulatory body would approve of the conversion.

Mr Chris Brierley, British Gas director in charge of new businesses, said that this led to the "theoretical possibility" that the British company could lose control over Bow Valley.

A spokesman for Investment Canada in Toronto, said only that British Gas was aware that the conversion of the non-voting shares into voting shares would require its approval.

Lex, Page 20

## Treasury faces MPs' query on priorities

By Philip Stephens, Economics Correspondent

AN ALL-PARTY committee of members of parliament yesterday joined in a debate over the funding of the health service by criticising the Government for failing to establish adequate mechanisms to determine public spending priorities.

In a report on last month's Autumn Statement on the economy, the House of Commons Treasury and Civil Service Committee said that in its questioning of Mr Nigel Lawson, the Chancellor of the Exchequer, it had found no evidence of any improvement in the way the Government fixes spending priorities.

The report highlights incidents where "well-merited" pay awards were granted to employees in, for example, the health service, and the Treasury then refused to meet the full cost. This meant that health services had to be cut back elsewhere.

With a better, centrally-controlled, system to establish priorities, however, additional outlays on one service could be met by economies in less vital services.

The committee was also critical of the Treasury's presentation of detailed public spending figures in cash terms.

It cited the example of the main table in the Autumn Statement showing cash increases in the totals for 20 out of 22 departments for the next financial year.

If the Treasury's own forecast of likely inflation was included in the calculation, however, no fewer than 10 departments were projected to suffer a cut in their allocations.

Many of the remaining departments would receive increases of less than the forecast growth in the economy, with spending on health projected to rise by just 1.2 per cent.

Treasury and Civil Service Committee, First report, HMSO, £6.50.

## Eurocity launches attack on quality of air traffic control

BY MICHAEL DUNNE, AEROSPACE CORRESPONDENT

A BITTER attack on the "significant deterioration" in the quality of air traffic control services in UK civil aviation over the past year was launched yesterday by Mr Michael Bishop, chairman of the independent airline Eurocity Express.

However, he also attacked a rival airline for provoking a flight ban by its complaints about the problems.

Eurocity Express flights to Paris from the new London City Airport were suspended on Friday by the Civil Aviation Authority following complaints by Brymon Airways of inadequate air traffic control on the route. Brymon's flights were also suspended.

A top-level inquiry into the Brymon complaints and the overall air traffic control situation at the airport began yesterday. The team of investigators is headed by Mr Brian Trubshaw, the former Concorde test pilot who is now an independent aviation consultant, assisted by CAA and former national air traffic officials. Their report is expected within the next few weeks.

Mr Bishop's attack on the quality of air traffic control services follows mounting criticism over recent months from air traffic control officers.

They have complained of inadequate equipment, long hours and difficulties in getting their grievances heard and understood. The CAA on the other hand has argued that it is spending substantial sums on improving the quality of equipment in a period of rapidly increasing air traffic.

Mr Bishop said the CAA decision to suspend flights to Paris was "the inevitable and proper response to the style of threat and confrontation with the CAA."

He said the CAA was "operator (Brymon) to secure a further improvement in air traffic control services for this route."

Eurocity Express had been satisfied with the air traffic control situation on the route "and remains of the opinion that the flight routings to Paris established since the operation of the new airport, the level of operational integrity demanded both by the airline and the CAA," Mr Bishop said.

Nonetheless, the situation underlined a problem "which is not unique to operations from this airport," he said.

"The Airlines of Britain Group, of which Eurocity Express is one of four operating units, has observed a significant deterioration in the air traffic control services it has received throughout its UK network during 1987."

"The continuing unsatisfactory industrial relations which appear to exist between the management of the National Air Traffic Control services and their staff can now be seen, in a practical way, to be having a damaging effect on their customers, the airlines."

"While the airlines are successfully meeting the challenge of providing for the increase in airline traffic, the parallel commitment of the National Air Traffic Services both in terms of its management and equipment, which is essential in such an inter-dependent industry, is not being fulfilled."

"Although this episode is inevitably damaging in the short term, coming in the first weeks of a new operation, the Airlines of Britain Group remains wholly committed to contributing to a successful future for the London City Airport and the introduction by both the air traffic control and the airlines of new facilities and equipment to generate confidence and success in the years ahead."

Brymon Airways declined to comment on Mr Bishop's statement. It said it had been asked to attend a meeting of the Inquiry into the Stolport affair with the CAA in London today, and would do so.

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FINANCIAL TIMES

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FINANCIAL TIMES  
EUROPE'S BUSINESS NEWSPAPER



## UK NEWS

## Nick Garnett looks at changing ownership trends in manufacturing

# The big rejig in heavy engineering

THE SALE announced this month of Rose Bearings, the ball-bearing division of APV, to Minebea of Japan exemplifies a trend which is reshaping large slices of UK mechanical engineering.

During the past year, scores of companies have changed hands in an apparently unstoppable reshuffle. It has changed the face of a number of the most important sectors making up Britain's heavy manufacturing.

The same theme has been chronicled in a range of other industries including electronics, white goods, food production and sports cars.

This year's events have underlined the depth and speed with which it has also been happening in the much more fragmented world of mechanical engineering.

In some sectors, the changes are being secured through the sale of a number of companies. In bearings, for example, three companies have been sold in the past few months, including the two largest indigenous owned businesses - the bearings operations of RHP and Cooper.

More than half a dozen British-based machine tool manufacturing operations have changed hands during the past 12 months or so, including some of the big ones.

At the same time, the restructuring of the earth-moving machinery sector, which gathered pace last year, has continued in 1987. This has included the absorption of dragline-maker Ransomes and Rapier by Stothert and Pitt, the purchase of Parker, the stone-crushing equipment and conveyor maker, by the Brown Group; and the likely sale soon of the Hymac excavator-making business by its owner, BM.

In other sectors, a fundamental alteration in ownership structure has been brought about by a big one-off sale of a dominant player.

For power generation, this was the purchase of Babcock by FKI.

In pumps, the acquisition by Glasgow-based Weir of Mather and Platt, part of the Australian Wormald group, involved two of the biggest UK pump-making operations.

The same trend emerged in food-making equipment with the merger of APV with Baker Perkins.

In farm machinery, one of the UK's largest operations, that run by Ransomes, Sims and Jeffries was sold to Electrolux, of Sweden.

In some peripheral sectors of mechanical engineering, similar changes also appear to be under way. For example, two air-conditioning equipment makers, Wright and Stone, have changed hands.

The trend should not be exaggerated. In sectors often comprising scores of companies, most operations have demonstrated stable ownership. Some of the purchases, too, are much smaller than the acquisitions British companies have made in the US this year. Nevertheless, this year's changes represent a shake-up not seen since the fall-out during the recession at the turn of the decade.

Four reasons seem to account for much of what has been happening in mechanical engineering, over and above the general acquisition boom which has characterised British industry during the past few years.

The first and obvious one is that some companies have wanted to extract themselves from sectors while other companies are digging deeper into those sectors or buying-in for the first time.

Almost all the acquisitions and mergers were agreed and were not the result of hostile take-overs. In some cases, large groups have sold businesses to smaller organisations specialising in that line of product.

Both TI and Staveley consciously took a decision to get out of machine tools this year, selling to companies committed to them. Last year, Northern Engineering Industries abandoned earth-moving machinery with the sale of three construc-

tion equipment businesses to BM, which sees that type of machinery as a core activity for itself.

This kind of change has also affected some sectors supplying indirectly to mechanical engineering. In the scrap industry, the 600 Group got out of the business this year with the sale of Cohens, the biggest single scrap operation in the UK, to Sheppard's, a specialist scrap company.

A second reason has been the desire to purchase a company in order to extract financial returns through rationalisation or to improve a global marketing position by broadening a product range. FKI's purchase of Babcock falls partly into the former category, while the APV-Baker Perkins merger and the acquisition of Mather by Weir fall into the latter.

A third factor has been the willingness of foreign companies to purchase businesses in the UK. This has included the takeover by Beyeler of Switzerland of 600's Edwards sheet metal forming machinery company, and the sale of W. E. Sykes, another 600 company, to the Irish Silver Mines Group.

Apart from the Electrolux purchase of Ransomes, Sims and Jeffries, Kalmars of Sweden bought lift-truck maker Coventry Climax 12 months ago, and Minebea, a Japanese bearing company, acquired Rose Bearings. In the metal supply industry, Bruhl Eisenwerk, of West Germany, has just purchased Rover's Beams foundry in the Midlands.

The fourth feature of these changes has been a state of management buy-ins and buy-outs and purchases by investor groups in which management has a significant stake.

That has been a particular factor in the machine tool industry. The UK operations of three US companies - Bridgeport, Excell-O and DeVlieg - have been caught up in management or investor buy-outs mounted largely outside the UK.

Investment money and a management stake was also a feature of the sale of TI Machine Tools to TMG Engineering. The RHP bearings business sale also involved a management buy-in.

Although all these changes are significant, the shape of mechanical engineering would have been even further redrawn if more of the hostile bids that failed last year had proved successful.

Among them was the attempt by Valuedale to take over Simon Engineering, led by Tozer, Kennedy and Milbourn, the cigarette machinery maker.

### An apparently unstoppable reshuffle... chronicled in industries including white goods, food production and sports cars

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## Hawker Siddeley wins Clyde Trident base power contract

BY JAMES BUXTON, SCOTTISH CORRESPONDENT

HAWKER SIDDELEY Power Engineering yesterday won a £5.3m contract to construct a large diesel generating station for the base for Trident submarines being built on the Clyde.

The contract is part of a £600m construction programme being carried out by the Government's Property Services Agency for the Ministry of Defence, making it one of the largest civil engineering projects in progress in Scotland. The base is located at Coulport on Loch Long and at Faslane on Gare Loch, both north-west of Glasgow.

The contract, won by Hawker Siddeley Power Engineering of Loughborough, is for the Royal Naval Armament Depot at Coulport. It involves building a power station which will incorporate diesel generating plant supplied by John Brown Engineering of Clydebank as sub-contractors.

The order, added to one for the Faslane base, brings the total value of orders won by John Brown Engineering to pounds 16m.

Work on the submarine base began in 1985 for completion by 1992. Construction has begun under a £36m contract to build a jetty access road and support area.

British offshore construction yards and shipyards have been asked to tender for the construction of a covered floating jetty, valued at about £50m, for Coulport.

## London house price rises 'ease'

By Andrew Taylor

LONDON HOUSE prices' eased growth rate is likely to slow with the market cooling in months rather than years, according to a report issued yesterday by Nationwide Anglia building society.

The third-largest society said house-price rises in the capital were pricing first-time buyers out of the market.

It said: "It is becoming increasingly clear that price rises like these cannot continue without forcing first-time buyers out of the market altogether."

"It is therefore likely that the London market will cool and we predict a slight widening within months rather than years."

Nationwide said the proportion of first-time buyers buying homes in London in the year ended September fell to 41 per cent, compared with a 58 per cent norm in recent years.

In fashionable outer London boroughs where prices were higher, the proportion of first-time buyers fell to less than 25 per cent in Havering, Kingston and Richmond.

Nationwide said: "The ratio of house price to borrower's income has continued to increase in the third quarter of 1987 and an average first-time buyer had to buy a house which was 20 per cent dearer to relative income than in 1986."

The average house price paid by borrowers in London was £67,810, about 27 per cent more than a year ago and 46 per cent higher than the average national house price.

## P & O updates Irish services

By Kevin Brown, Transport Correspondent

PENINSULAR AND Oriental Steam Navigation has announced plans to spend £11m on improvements to its roll-on, roll-off freight ferry services to Dublin and Larne.

The announcement follows the withdrawal of B-I Line from the Dublin to Fleetwood route as part of an £11m restructuring by the Irish Government.

P & O said its freight service, operated by its Pandoro subsidiary, would concentrate UK-to-Dublin services on Liverpool, but services to Northern Ireland would be switched to Fleetwood.

As part of the rationalisation of routes, Pandoro has agreed to buy the B-I fleet of 1,500 trailers. That will give Pandoro nearly 4,000 trailers in a market in which door-to-door services are becoming increasingly important.

P & O's investment proposals include lengthening the 90-trailer ferry Buffalo, one of the four ships on the Dublin route, to accommodate up to 45 drivers.

## Call for cash to reclaim derelict land in Wales

BY ANTHONY MORETON, WELSH CORRESPONDENT

UNLESS a massive increase is made in the money available for reclamation of derelict land in Wales, the Principality will carry the industrial scars of the 19th century into the 21st century, according to a report.

Mr Ewart Parkinson, former chief planner for South Glamorgan County Council, who prepared the report for the Coalfield Communities Campaign, suggests that the amount set aside by the Government through its agencies, such as the Welsh Development Agency, should be increased immediately to £25m a year. This year, £18m is being spent, a big rise on 1986.

Land is being cleared at the rate of around 300 acres a year in Wales, Mr Parkinson claims. This only allows for the clearance of present sites and makes no inroad into previous dereliction.

"Assuming no new dereliction and that this rate was continued it will be many decades before derelict land is cleared from Wales," he reports. "People in Wales are therefore in the sad situation whereby they are falling in the 20th century to clear the industrial mess created by the 19th century."

"Unless Wales has an immediate and massive increase in the funding allocated to land reclamation we shall carry the scars of the 19th century well into the 21st century, irrespective of what new dereliction is created."

The Coalfield Communities Campaign is an organisation representing 75 local authorities in England, Wales and Scotland that have heavy concentrations of coal mining.

Mr Parkinson points out that Wales has been lagging behind both England and Scotland in removing the scars of industrialisation.

In England spending has jumped from £10m in 1977 to £50m this year and in Scotland the total has doubled to £30m in the same period. By comparison, Wales has seen its spending rise from \$8m to £16m, though the scale of its problem is very little different from Scotland's.

## Ulster to host business conference

Financial Times Reporter

NORTHERN IRELAND is to host an important international business conference next year which is expected to attract about 400 delegates from all over Europe.

The decision to hold an event in the province follows the success of the Local Enterprise Development Units Convention in Portugal this year.

Mr Peter Viggers, the Northern Ireland Industry Minister, said the conference, next September, would bring together representatives from the European business community.

They would be able to assess Northern Ireland's approach to the stimulation of economic growth and the pioneering of Enterprise Development programmes.

Key aims of the conference will be to encourage enterprise throughout Europe and to update delegates on the latest small business developments.

Mr Viggers said: "I think it is a tremendous opportunity for us in Northern Ireland to make our mark on the European scene and to develop the opportunity to sell our expertise more widely."

This announcement is neither an offer to purchase nor a solicitation of an offer to sell Shares. The Offer is made solely by the Offer to Purchase dated December 18, 1987 and the related Letter of Transmittal and is not being made to (nor will tenders be accepted from or on behalf of) holders of Shares in any jurisdiction in which the making of the Offer or the acceptance thereof would not be in compliance with the laws of such jurisdiction. In any jurisdiction the securities laws or blue sky laws of which require the Offer to be made by a licensed broker or dealer, the Offer is being made on behalf of the Purchaser by Drexel Burnham Lambert Incorporated or one or more registered brokers or dealers which are licensed under the laws of such jurisdiction.

## Notice of Offer to Purchase for Cash up to 13,276,348 Shares of Common Stock

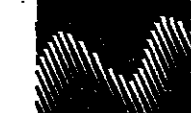
## The Telex Corporation

## \$62 Net Per Share

## by George Partners, Inc.

an indirect wholly-owned subsidiary of

## Memorex International N.V.



George Partners, Inc., a Delaware corporation (the "Purchaser") and an indirect wholly-owned subsidiary of Memorex International N.V., a Netherlands corporation ("Memorex"), is offering to purchase up to 13,276,348 shares of Common Stock, par value \$1.00 per share (the "Shares"), of The Telex Corporation, a Delaware corporation (the "Company"), at \$62 per Share net to the seller in cash, upon the terms and subject to the conditions set forth in the Offer to Purchase dated December 18, 1987 (the "Offer to Purchase") and in the related Letter of Transmittal (which together constitute the "Offer").

THE OFFER, EXPIRATION PERIOD AND WITHDRAWAL RIGHTS WILL EXPIRE AT 12:00 MIDNIGHT, NEW YORK CITY TIME, ON TUESDAY, JANUARY 19, 1988, UNLESS EXTENDED.

The Offer is conditioned upon, among other things, (i) at least a majority of the issued and outstanding Shares, on a fully diluted basis, being validly tendered on or prior to the Expiration Date (as defined below) and not being withdrawn, (ii) adequate financing being obtained by the Purchaser on terms it considers commercially reasonable with which to fund the purchase of the Shares tendered in the Offer and the consummation of the Merger (as defined below) and to pay all related fees and expenses and (iii) all consents and waivers necessary under the material agreements to which Memorex or any of its subsidiaries is a party to permit the consummation of the Offer and the Merger, including, without limitation, any consents or waivers required in connection with the financing for the Offer and the Merger, being obtained.

The purpose of the Offer and the Merger is to acquire control of, and the entire equity interest in, the Company. The Offer is being made pursuant to an Agreement and Plan of Merger dated December 18, 1987 (the "Merger Agreement") between Memorex, the Purchaser and the Company. The Merger Agreement provides that, after the completion of the Offer and the satisfaction of certain other conditions, the Purchaser will be merged (the "Merger") with and into the Company, which will be the corporation surviving the Merger (the "Surviving Corporation").

Assuming an aggregate of 13,276,348 Shares are purchased by the Purchaser, Memorex or any subsidiary of Memorex, in the Offer or otherwise prior to the effective time of the Merger, each Outstanding Merger Share (as defined below) (other than Shares held by stockholders who dissent from the Merger and comply with all the provisions of the Delaware General Corporation Law concerning appraisal rights) will, as a result of the Merger, be converted into the right to receive 10.33 shares of Series A Cumulative Redeemable Exchangeable Preferred Stock of the Surviving Corporation (the "Merger Preferred"), each share of which shall have a liquidation preference of \$8.00. If less than an aggregate of 13,276,348 Shares are purchased by the Purchaser, Memorex or any subsidiary of Memorex, in the Offer or otherwise prior to the effective time of the Merger, each Outstanding Merger Share will, as a result of the Merger, be converted into the right to receive a pro rata portion of the cash not used in making such purchases plus that liquidation preference of Merger Preferred which together with such cash equals \$62.

The term "Outstanding Merger Shares" means, collectively, all Shares issued and outstanding immediately prior to the effective time of the Merger other than Shares owned by the Company, the Company's subsidiaries, the Purchaser, Memorex or Memorex's subsidiaries.

The Board of Directors of the Company has unanimously determined that the Offer and the Merger, when taken together, are in the best interests of the stockholders of the Company and are on terms fair to the stockholders of the Company and strongly recommends that stockholders tender all of their Shares in the Offer.

Except as otherwise provided in Section 4 of the Offer to Purchase, tenders of Shares are irrevocable. Shares tendered pursuant to the Offer may be withdrawn at any time prior to the Expiration Date and, unless thereto accepted for payment as provided in the Offer to Purchase, may also be withdrawn after February 15, 1988. The term "Expiration Date" shall mean 12:00 Midnight, New York City time, on Tuesday, January 19, 1988, unless and until the Purchaser in its sole discretion, subject to the terms of the Merger Agreement, shall have extended the period of time for which the Offer is open, in which event the term "Expiration Date" shall mean the latest time and date at which the Offer, as so extended by the Purchaser, shall expire.

For a withdrawal to be effective, a written, telegraphic, telex or facsimile transmission notice of withdrawal must be timely received by the Depository at one of its addresses set forth on the back cover of the Offer to Purchase and must specify the name of the person who tendered the Shares to be withdrawn, the number of Shares to be withdrawn and the name of the registered holder if different from that of the person who tendered such Shares. If certificates for Shares have been delivered or otherwise identified to the Depository, then, prior to the physical release of such certificates, the serial numbers shown on the particular certificates evidencing the Shares to be withdrawn and a signed notice of withdrawal with signatures guaranteed by an Eligible Institution (as defined in Section 3 of the Offer to Purchase), except in the case of Shares tendered by an Eligible Institution, must also be furnished to the Depository as aforesaid. If Shares have been delivered pursuant to the procedures for book-entry transfer set forth in Section 3 of the Offer to Purchase, any notice of withdrawal must also specify the name and number of the account at the appropriate Book-Entry Transfer Facility (as defined in Section 2 of the Offer to Purchase) to be credited with the withdrawn Shares.

For purposes of the Offer, the Purchaser will be deemed to have accepted for payment (and thereby purchased) Shares validly tendered to the Purchaser on or prior to the Expiration Date and not properly withdrawn when, as and if the Purchaser gives oral or written notice to the Depository of its acceptance for payment of such Shares pursuant to the Offer. Notwithstanding any other provision of the Offer, payment for Shares purchased pursuant to the Offer will, in all cases, be made only after timely receipt by the Depository of (i) certificates for such Shares or confirmation of book-entry transfer of such Shares, (ii) the Letter of Transmittal (or a facsimile copy thereof), properly completed and duly executed and (iii) any other required documents. Accordingly, payment may be made to tendering stockholders at different times if certificates for Shares and accompanying documents are delivered at different times.

If more than 13,276,348 Shares are validly tendered and not withdrawn prior to the Expiration Date, Shares so tendered will be accepted for payment on a pro rata basis (adjusted to avoid acceptance for payment of fractional Shares). At present, the Purchaser does not intend to purchase more than 13,276,348 Shares pursuant to the Offer, but reserves the right to do so.

The Purchaser is not seeking, nor will the Purchaser accept, tenders of the Rights (as defined in the Merger Agreement) pursuant to the Offer. The Company has agreed to redeem, effective immediately prior to the acceptance for payment of Shares pursuant to the Offer, all of the Rights.

The Purchaser expressly reserves the right (i) to delay payment for any Shares regardless of whether such Shares were theretofore accepted for payment, or to terminate the Offer and not accept for payment or pay for Shares not theretofore accepted for payment or paid for, upon the occurrence of any of the conditions specified in Section 11 of the Offer to Purchase, by giving oral or written notice of such termination to the Depository and (ii) subject to the Merger Agreement, at any time or from time to time to amend the Offer in any respect. The Purchaser expressly reserves the right in its sole discretion, at any time or from time to time (subject to the terms of the Merger Agreement), to extend the period during which the Offer is open by giving oral or written notice of such extension to the Depository. Any extension, delay in payment, termination or amendment will be followed as promptly as practicable by public announcement thereof. Such announcement in the case of an extension will be issued no later than 9:00 a.m., New York City time, on the next business day after the previously scheduled Expiration Date.

The information required by paragraph (e) (1) (vii) of Rule 14d-6 under the Securities Exchange Act of 1934, as amended, is contained in the Offer to Purchase and is incorporated herein by reference.

The Offer to Purchase and the related Letter of Transmittal contain important information which should be read before any decision is made with respect to the Offer.

Requests for copies of the Offer to Purchase, the Letter of Transmittal and other related materials may be directed to the Information Agent or the Dealer Manager at their respective telephone numbers and locations listed below, and copies will be furnished promptly at the Purchaser's expense.

The Information Agent for the Offer is:

United States:  
237 Park Avenue  
New York, New York 10017  
(800) 365-5500/(800) 221-3343  
In New York: (212) 619-1100  
Banks and Brokerage Firms please call:  
(212) 883-8800

Europe:  
The Carter Organization, Inc.  
a member of  
The VPI Group PLC  
46 Grosvenor Gardens  
London SW1W 0DH  
01-730-3458

The Dealer Manager for the Offer is:

## Drexel Burnham Lambert

INCORPORATED

55 Broad Street  
New York, New York 10004  
(212) 480-1938

December 18, 1987

## BSN

has acquired a 20% participation in

IFIL PARTECIPAZIONI

a subsidiary of

## IFIL

In consideration for this acquisition

IFIL has received a 4.2% participation in BSN.

## LAZARD FRERES ET COMPAGNIE



## UK NEWS

## Court rules against shops over Sunday DIY trading

FINANCIAL TIMES REPORTER

DO-IT-YOURSELF stores cannot legally sell items such as garden accessories, wood and wallpaper on Sundays, the High Court in London ruled yesterday.

Lord Justice Watkins and Mr Justice Mann decided in cases before them against retailers Texas Homecare, Wickes Building Supplies, RMC Homecare (South), W. H. Smith Do-It-All, and Paul Madeley Ltd - the company formed by the former Leeds footballer.

In the case of the four nationwide concerns, the judges sent cases back to local magistrates with directions to convict for illegal Sunday trading. In Paul Madeley's case, they dismissed the company's appeal against conviction.

Mr Justice Mann, giving the court's reserved judgment, said magistrates in many parts of the country had been coming to "perverse decisions" but a wide range of articles could be construed as motor accessories,

which were allowed to be sold on Sundays under the 1950 Shops Act.

The stores before the court yesterday had, between them, sold the following items: abrasive pads, brush cleaner, ceramic tiles, cressets, curtain railings, emulsion paint, electrical cable and electrical boxes, fluorescent tubes, glass paint, laminated wood, paint brushes, plaster board, plumbing fittings, radiators and fittings, roofing felt, timber, tiles, wallpaper, watering cans, white spirit and varnish.

Mr Justice Mann said the astonishing argument put forward was that these were "motor accessories" because they could be used to repair motorised cars.

The appeal judge said: "A woman's stocking can be used as a motor accessory as it can serve as a fan belt, but no one using language with its ordinary and natural meaning would regard a

hosiery counter as selling motor accessories.

"Justices must ask themselves whether, in the ordinary and natural use of language, an item is capable of being described as a motor supply or accessory."

About some items they might have doubt - such as a chainsaw or torch - and in those cases only could they give the benefit of the doubt to the stores, he said.

In most cases, magistrates needed "only a knowledge of our language" to decide the issue.

There was no notice of appeal in court against yesterday's decision.

The case involved Texas Homecare stores in Rochford, Sandwell, Ipswich and Luton; Wickes Building Supplies in Rotherham, RMC Homecare in Salisbury and W. H. Smith Do-It-All in Tameside. Leeds City Council had contested Paul Madeley's unsuccessful appeal.

## Slowdown in economy signalled by index

By Sharon Holberton

THE SHARE-PRICE collapse last October might lead to a slowdown in the economy in a year's time, official, longer-term indicators of the business cycle suggest.

The Central Statistical Office's longer leading index, aiming to inform on the economy's behaviour a year ahead, fell 1.3 per cent last month from its October level. However, the office said last month's fall was because of the effect of October's share-price declines. It added that only two of the index's five components were related to information current in November.

Over recent years the index has not been an accurate forecaster: last year it forecast a downturn for this year, in fact the economic growth rate has been the highest for nearly 15 years.

The index was 102.6 last month (1980=100), compared with 105.4 in October and 101.5 in November last year.

The office's other indicators - the shorter leading indicator, the coincident and lagging indicators - were published for October.

Two were higher than the September levels: the office said they were consistent with an economy growing strongly.

## Guinness Peat title

THE directors of Guinness Peat Group, the financial services company, yesterday announced their intention to change the company's name to GPG. An extraordinary general meeting on January 11 will consider a resolution to approve the change.



Mr Justice Scott: open-minded reputation

## Welsh home for TSB offshoot

BY ANTHONY MORETON, WELSH CORRESPONDENT

THE Trustee Savings Bank confirmed yesterday that its TSB Trust Company subsidiary is to open a main office in Newport, South Wales, close to the M4 motorway.

The bank has received government selective assistance of £5m towards the £50m cost of setting up the operation, which at the start will create about 400 jobs in the area.

TSB Trust is the insurance arm of the bank's headquarters, which have been in Andover, where it employs over 2,000 people, since 1973.

Mr Brian Brown, chief executive of TSB Trust, said the 400 jobs represented only a start. "We expect it to rise to about 2,000 by the mid-1990s," he added.

Mr Peter Walker, the Welsh Secretary, said the move was one of the biggest grant-aided investments made in the UK.

"It will be a project containing within it some of the most sophisticated information technology and communication equipment in the world."

"I hope in the next few years we get a really good flow of such businesses leaving the expensive south-east of England and coming to take full advantage of what is available in Wales."

The TSB Trust's move, following that of Chemical Bank to Cardiff some years ago, showed what "concrete opportunities" there were for service industries in the principality, Mr Walker said.

The trust's Andover operation will not be affected, although about 50 senior staff will be transferred to South Wales.

TSB Trust has bought a 16-acre site on the outskirts of Newport, where it intends to build a 300,000 sq ft office block.

Until that building is ready, it has taken three offices nearby on short leases from the Welsh Development Agency, one of which was previously occupied by National Panasonic, the Japanese television and hi-fi company.

TSB Trust handles pensions, unit trusts and offshore funds as well as general insurance and assurance. It has grown rapidly in recent years. When it moved to Andover 14 years ago its staff in the town was just 40.

## Liberal pragmatist with a sporting bent

BY RAYMOND HUGHES, LAW COURTS CORRESPONDENT

MR JUSTICE Scott - one of three South African-born judges on the English High Court bench - is regarded as being on the liberal wing of the judiciary.

"Open-minded" and "independent" are other descriptions used. Those who know him predict an early elevation to the Court of Appeal.

Scott also appears to be a pragmatist. Two years ago, seeking to end a succession order that had deprived the South Wales area of the National Union of Mineworkers of more than £700,000 of its funds for seven months, he was not troubled by the union's failure to apologise for defying a court order.

"The court's dignity," he said, "does not depend upon or require a public recantation, the sincerity of which,

if offered, might in the circumstances be open to question."

The important thing, he said, was that the rule of law had been seen to prevail.

Sir Richard Rastleigh Follett Scott, 54, the son of a Lieutenant colonel in the Gurkha Rifles - was educated at Cape Town University and Trinity College, Cambridge, where he played rugby for his house in 1957.

He was called to the English Bar in 1958 (he married his Panamanian wife the same year) and was appointed a Queen's Counsel in 1978.

He was chairman of the Bar in 1982-83 and was appointed a judge of the Chancery Division in 1983.

Mr Justice Scott was in the same chambers in Lincoln's Inn as Sir Nicolas Browne-Wilkinson, the Vice-Chancellor - the senior judge in Chancery. Sir Nicolas is also regarded as a judicial liberal, not least because of his ruling in favour of the newspapers in an earlier round of the Spycatcher case.

In one part of his judicial incarnation, Mr Justice Scott too is a Vice-Chancellor - of the County Palatine of Lancaster (of which he was Attorney-General between 1980 and 1983). In this capacity, he spends 18 weeks a year trying Chancery matters in Manchester and Leeds.

Out of court, Mr Justice Scott's interests appear to be almost exclusively sporting: Who's Who lists his recreations as hunting, tennis and bridge.

coln's Inn as Sir Nicolas Browne-Wilkinson, the Vice-Chancellor - the senior judge in Chancery. Sir Nicolas is also regarded as a judicial liberal, not least because of his ruling in favour of the newspapers in an earlier round of the Spycatcher case.

## Raymond Hughes reports on the High Court's M15 memoirs ruling Judge rejects ban on Spycatcher

THE HIGH Court yesterday rejected the Government's claim for a permanent ban on press reports of Spycatcher, the memoirs of Mr Peter Wright, a former M15 officer.

In a three-hour judgment, Mr Justice Scott said any damage the book might cause to Britain's national security must already have been inflicted as a result of its worldwide dissemination.

Factors in favour of press freedom were "of overwhelming weight," the judge said.

Sir Patrick Mayhew, QC, the Attorney-General, had asked the judge to make permanent the temporary injunctions that had since July last year, prevented the Guardian and The Observer reporting information emanating from Mr Wright.

Sir Patrick had also sought a permanent order against the Sunday Times, which in July this year was temporarily restrained from publishing extracts from Spycatcher.

The claims were based on national security and the Government's contention that members of the security service owed a life-long duty of confidentiality.

The judge said that in writing and publishing Spycatcher Mr Wright was "in clear and flagrant breach of the duty of confidence he owed the Crown."

The spectacle of him making money out of the unrestricted sale of his book in the UK would be offensive and an affront to most decent people. However,

metamorphosis. Initially it had been based on the need for a secret service to be secret; it then changed to an argument concerning the need to promote the efficiency and reputation of M15.

The judge spoke of a "clash of rival philosophies" between Sir Robert Armstrong, the Cabinet Secretary, who had been the Government's principal witness, and the editors of the three newspapers.

Sir Robert would not accept that any freedom of speech or publication should be permitted so as to allow any information about the security service to be disclosed publicly by an "insider."

The judge said: "No question of a balance between the proper requirements of national security on the one hand and of freedom of the press on the other hand arose."

"I found myself unable to escape the reflection that the absolute protection of the security service that Sir Robert was contending for could not be achieved this side of the Iron Curtain."

The editors regarded any prior restraint, in the interests of national security, on newspapers' freedom to publish as an unacceptable fetter on press freedom.

Neither view, said the judge, was acceptable.

The price to be paid for an efficient and secure security service would be some loss of press

freedom. The price to be paid for free speech and a free press in a democratic society would be the loss of some degree of secrecy about the affairs of Government, including the security service.

Referring to Mr Wright's allegation of a plot by M15 officers to destabilise Mr Harold Wilson's Government, the judge said it would be objectionable if such an allegation could not be placed before the citizens of this country when it was being publicised elsewhere.

If the press heard of an allegation by an insider that, if true, would be a scandalous abuse by officers of the Crown of their powers and functions, the duty of confidence could not be used to prevent the press from reporting the allegation.

The judge rejected the Government's argument that it ought not to be exposed to pressure reporting of Mr Wright's allegations.

"The legitimate purpose of the duty of confidence imposed on M15's affairs and thereby enable it to operate efficiently."

"The purpose is not to save the government of the day from pressure or embarrassment."

"The ability of the press freely to report allegations of scandal in government is one of the bulwarks of our democratic society. It could not happen in totalitarian countries," the judge said.

Siebe plc

has acquired

Barber-Colman Company

The undersigned acted as financial advisors to Siebe plc in this transaction.

Lazard Frères &amp; Co.

Lazard Brothers &amp; Co., Limited

December 22, 1987

UNITED AGRISEEDS, INC.

HAS BEEN ACQUIRED BY

DOW CHEMICAL COMPANY

We advised United AgriSeeds, Inc. on the acquisition

AGRICAPITAL CORPORATION

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December 2, 1987

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420 Lexington Ave., Suite 1925  
New York, NY 10170

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## GRANVILLE SPONSORED SECURITIES

Capitalisation 2000%	Company	Price	Change on week	Gross div 90	Yield %	P/E
6564	Am. Int. Ind. Ord.	193	0	8.9	4.6	7.2
1650	Am. Int. Ind. CULS	199	0	10.0	5.0	
4554	BBB Design Group (USM)	26	0	2.1	3.7	26.7
101799	Borden Group	156	0	2.7	3.7	8.8
8157	Bry Technology	141	0	4.7	3.3	11.3
907	CL Group Ordinary	259	0	12.5	4.4	4.6
1625	CGI Group 11% Cum Pref	130	0	15.7	12.1	
16686	Carborundum Ord	132	+1	5.4	4.3	11.5
700	Carborundum 7.5% Pref	100	0	10.7	10.7	
2494	George Blair	146	0	3.7	2.5	3.8
5475	Isis Group	75	0	-	-	-
9582	Jackson Gries	92	0	3.4	3.7	10.2
19104	Multihouse N.V. (AmvSE)	245	0	7.5	3.1	9.7
13750	Recof Holdings (SE)	55	0	2.7	4.9	11.1
2916	Recof Holdings 10% Pref (SE)	108	0	14.1	13.1	
551	Robert Jenkins	54	0	-	-	2.4
5528	Scotts	126	0	5.5	4.4	4.9
5767	Torday & Carthill	204	+1	6.6	3.2	9.9
2883	Trevian Holdings (USM)	67	0	2.7	4.1	7.2
10200	Univest Holdings (SE)	52	+1	2.8	5.4	9.6
45250	Walker Alexander (SE)	165	0	5.9	3.6	12.2
4738	W. S. Yeates	203	0	17.4	8.6	20.3
4290	West York Ind. (USM)	120	0	5.5	4.6	12.7

Securities designated (SE) and (USM) are dealt in subject to the rules and regulations of The Stock Exchange. Other securities listed above are dealt in subject to the rules of FIMBRA

Granville & Company Limited  
8 Lovat Lane, London EC3R 8BP  
Telephone 01-621 1212  
Member of FIMBRA

Granville Davies Coleman Limited  
8 Lovat Lane, London EC3R 8BP  
Telephone 01-621 1212  
Member of the Stock Exchange

## Prudential Real Estate Securities III, Inc.

11% Guaranteed Sinking Fund Bonds Due January 15, 1992

NOTICE IS HEREBY GIVEN that, pursuant to Section 7 (a) of the Terms and Conditions of the above-mentioned Bonds and in conformity with the Fiscal Agency Agreement dated as of January 15, 1986 among Prudential Real Estate Securities III, Inc., Prudential Funding Corporation and The Chase Manhattan Bank (National Association) as Fiscal Agent, U.S. \$4,285,000 in principal amount of the above Bonds will be redeemed through operation of the sinking fund on January 15, 1988 (the "Sinking Fund Redemption Date") in the principal amount thereof (the "Redemption Price") together with interest accrued to said Sinking Fund Redemption Date.

Serial Numbers of the Bonds to be redeemed, bearing the Prefix M, are set forth below in groups from one number to another number, both inclusive:

Serial Numbers	Serial Numbers	Serial Numbers	Serial Numbers
M 1001 through 7000	14001 through 15000	16001 through 17000	18001 through 19000
11001 through 12000	13001 through 14000	15001 through 16000	17001 through 18000

Serial Numbers of the Bonds to be redeemed, bearing the Prefix L, are set forth below in groups from one number to another number, both inclusive:

Serial Numbers	Serial Numbers	Serial Numbers	Serial Numbers
L 2001 through 3000	2801 through 3400	4701 through 4800	5001 through 5500
3201 through 3300	3401 through 3500	4901 through 4950	

Interest on the Bonds to be redeemed will accrue on and after the Sinking Fund Redemption Date and on said date the Redemption Price will become due and payable. Payment of the Bonds to be redeemed will be made upon presentation and surrender thereof together with all coupons maturing subsequent to the Sinking Fund Redemption Date at any one of the following:

The Chase Manhattan Bank, N.A.,  
Wholesale Branch, Coleman Street  
London, EC2P 6JH, England

Chase Manhattan Bank, (Luxembourg), S.A.,  
47 Boulevard Royal  
Luxembourg, Luxembourg

Coupons which shall mature on the Sinking Fund Redemption Date should be detached and surrendered for payment at the usual interest.

PRUDENTIAL REAL ESTATE SECURITIES III, INC.  
By: The Chase Manhattan Bank (National Association),  
as Fiscal Agent

Date: December 16, 1987

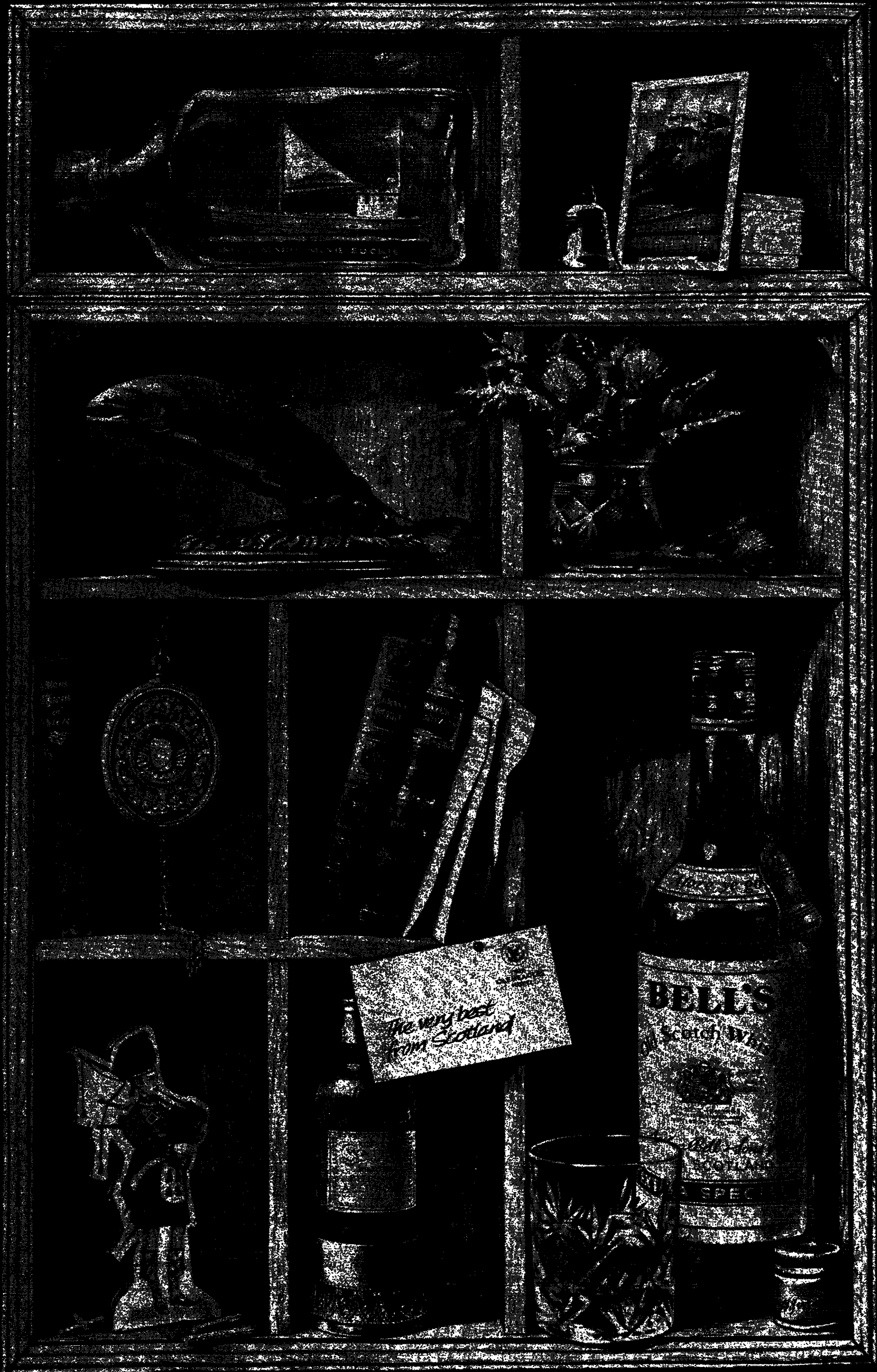


Can anything you've read above compete with the wit, sagacity and unexpected fun to be found in the end-of-year double issue of The Economist?

The Economist

Available from Wednesday 23rd December. £2







# MANAGEMENT: Small Business

LIKE MANY other teenage computer enthusiasts, David and Richard Darling began devising their own computer games on their home computer after school. Unlike most of their contemporaries they have gone on to create a successful business from their hobby and, at the ages of 21 and 19 respectively, to head a \$2m turnover company.

Code Masters, the company they set up just over a year ago, claims to be the leader in the UK computer games market, though this claim is disputed by Mastertronic, one of its main rivals. And while the computer craze of a few years ago has passed, the UK is still the largest market in Europe

## Cult of youth is more than a game

for ever more sophisticated computer games. The two brothers, who manage to look even younger than their already tender ages, began playing computer games in an amusement arcade about six years ago. Unable to afford the 37 which games cost to buy at the time they wrote their own.

"We felt our own games were better and thought there must be a way of making a business out of this," David recalls. By saving pocket money and school dinner money they scraped together £70 for an

advertisement in one of the computer magazines offering their own games for sale.

"We were surprised by the response; it generated £1,000 worth of sales," says Richard, who, with his brother, spent many a late night making copies of the games they had written to meet the orders. Soon they were able to invest in a modest shop in a nearby shopping area, and a company specialising in demo tapes for pop groups.

By 1984 their reputation was growing and they were offered a contract by one of the larger

video game companies, Mastertronic, to supply it with new computer games. This arrangement lasted for a couple of years but in 1986 the two brothers went independent again, setting up Code Masters with £150,000 of their own savings and royalty earnings.

To build up their business, they targeted the budget market - games retailing for £1.99 with titles such as BMX Simulator, Mission Jupiter and Brainache. Budget games now account for 80 per cent of the market, previously dominated by much more expensive tapes.

The growth of the business has meant the two have had to bring in professional managers to handle operations and export sales. They also took on their father, Jim, who had for many years run his own contact lens business, to handle sales and book-keeping. As well as a dozen full-time staff they also use more than 100 free-lance computer programmers.

Based in a converted barn in Southam, Warwickshire, Code Masters already exports throughout continental Europe and Australia and is negotiating a distribution deal in the US. In the longer term the two brothers can envisage selling their company though they are keen to stay in the computer industry.

## Barriers to inheriting a healthy business

PASSING ON a private company to the next generation can be made very difficult or impossible by the present system of inheritance tax, according to the Association of Independent Businessmen.

The association, which has 5,000 members, has made reform of the inheritance tax system one of the main planks of its 1988 budget campaign. The difficulties associated with ensuring the survival of the family firm has attracted little attention in Britain in recent years though on the Continent the French, and to a lesser extent the West Germans, have been devoting thought to the problems facing the post-war generation of entrepreneurs (this page December 15).

In 1984/85, capital transfer tax, as it was then known, affected 24,000 individuals (though not all owned businesses) and brought in \$664m of tax; the yield from inheritance tax in the present financial year is expected to reach \$1bn.

While inheritance tax can be avoided by giving away assets in one's lifetime, provided one lives for at least seven years after making the gift, this is

not always a realistic option, the association says. Giving away a large part of one's business during one's lifetime may reduce the owner's income and his control of the business.

Even worse, says Brendan Donnellan, general secretary of the association, is the situation of the company where the owner dies before doing any tax planning. The business, or large parts of it, may have to be sold to meet tax liabilities.

The sharp rise in house prices, particularly in the south-east, has meant that even fairly modest estates will be liable for the tax. The rates of tax are far too steep in the initial stages, the association argues. It wants the nil rate band to apply up to £250,000 and bands to be graded less steeply thereafter.

The tapered relief for gifts where the person dies more than three years after the date of the gift, but still less than seven years after, is totally inadequate, the association argues.

The association is also calling for further relief on assets which are difficult to realise, especially shares in unquoted companies. They should be free of tax until the owner actually sells them.

## Why only a few are likely to pass 'go'

Charles Batchelor takes a seasonal look at those ever hopeful of making the board

IF YOU CONVINCE yourself, after grappling with the latest popular board game this Christmas, that you could develop something better yourself - think again. Designing and, even more important, bringing to market a successful board game can be even harder than winning at Trivial Pursuit or avoiding landing on an hotel-studded Park Lane in Monopoly.

Up to 5,000 people a year write to John Waddington, the leading UK board game manufacturer, with a suggestion for a new game. But the company launches only about 10 a year and these are more likely to have come from a professional games designer or from Waddington's own development team than from the hopeful amateur.

"I always start with the bad news," says David Parker, a United Biscuits secondee with the London Enterprise Agency (LEA), who advises would-be game-makers. "I tell them that for every game you see on the counter there have been 999 failures."

Despite such obstacles and fierce competition from the big US games manufacturers, Kenner Parker and Milton Bradley, a small number of hopefuls do make the breakthrough.

Neil Maddison is on the lowest rung of the ladder. Now 24, he gave up postgraduate physics research at York University

to develop an idea for a board game based on his own travels by train around Europe.

After taking a Graduate Enterprise course at Durham University Business School, he spent the past few months refining his ideas for "Worldwise" ready for launch early next year.

Rod Castles, formerly a self-employed builder, has gone a stage further and is now producing a range of magnetic board games, cards and puzzles from a converted warehouse in Greenwich, south-east London.

He raised about £90,000 in finance from his bank and a number of private backers to set up Stinkers Cards last July. He aims to employ about eight people and reach turnover of £200,000 or more in a year's time.

Maureen Hiron, inviolated out of teaching when an air extractor fell on her head, has spent the past five years devising a series of highly successful board games which now sell in 26 countries round the world.

Her first game, Continuum, which involves matching coloured cards, sold more than 200,000 copies in the two big US games manufacturers, Kenner Parker and Milton Bradley, a small number of hopefuls do make the breakthrough.

But even when the small company producing games has established a foothold it is operating in a particularly tough market. The main problems it faces are:

• The seasonal nature of demand. Sales are concentrated in the run-up to Christmas which means that the games makers are flush with cash at the year-end but hard pushed by autumn.

The new games company must also make sure it correctly times its arrival in the market so as to catch the trade fairs early in the new year when the buyers decide what they will carry the following Christmas.

To counteract the bunching of sales at the end of the year many small companies attempt to broaden their activities. John Church and two student friends set up Chestwell in 1985 to market Masquerade, a board game based on the idea of charades. The company is already looking to diversify into other less seasonal products using the same materials as those required for board games - cardboard, paper and plastics.

The small games makers get round the problem of the lengthy quiet season by subcontracting out the actual production of the games. Chestwell uses no fewer than 10 companies to produce Masquerade.

Keeping up the flow of ideas. The life of a game can be

extended by licensing sales in overseas markets and developing new versions of the same basic formula. Hiron Games has launched a triangular version of Continuum, which in the original uses square game cards.

But to guarantee the long term future of the company the entrepreneur must be able to generate new ideas. Hiron, a colourful, outspoken individual who has played bridge for England, believes the knock on the head she received stimulated the innovative part of her brain. Three new games have been launched this year and she has enough lined up to last another 18 months.

But not everyone can work so quickly. Jim Wilkinson, a former shipwright from Walsend-on-Tyne who began producing wooden board

games when he was made redundant, says it is a slow process.

"Most games evolve rather than come in a blinding flash," he says. He believes most games, when first conceived, are too complicated to appeal and tries out his ideas on his children.

Getting the game into the shops. Buyers are reluctant to order from a small games company because the game will not be backed by TV advertising and they cannot be sure it will be delivered in sufficient quantities. Chestwell's John Church says he had a hard time until he actually began producing Masquerade and could show buyers the finished product.

Packaging is all-important. "What you are selling is a mystery on the shelf," says LEA's David Parker. "If you are not

spending a lot on promotion the top of the box has to be very explicit."

And the designer has to be careful to balance the size of the box with its contents. "The trend in the market is to package a lot of air to give a perceived value to the game," says Church. But too much air with very shiny contents is counter-productive and people will not feel they have got value.

Tough though the battle is, the small games maker does have one trump - it can react more quickly to changing fashions than the large company. Maureen Hiron recounts how she got a trivia type game on to the shelves of the retailer W.H. Smith within three months of the first discussions. "The big companies need six board meetings to agree even to scratch themselves," she says.



David (left) and Richard Darling: felt their own games were better

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22 December 1987

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NOTICE IS HEREBY GIVEN that the annual general meetings of members of the undermentioned companies will be held at 44 Main Street, Johannesburg, on Thursday, 22 January 1988, at the times stated below, in each case for the following purposes: (1) To receive and consider the annual financial statements of the company for the financial year ended September 30 1987; (2) To elect directors in accordance with the provisions of the company's articles of association.

Name of Company	Time
Wellkom Gold Holdings Limited	10h00
Orange Free State Investments Limited	10h15
Free State Consolidated Gold Mines Limited	10h30
Holders of share warrants to bearer of Free State Consolidated Gold Mines Limited and Orange Free State Investments Limited, who wish to attend in person or by proxy or to vote at the respective annual general meetings of those companies must comply with the provisions of such companies' articles of association which shall be deemed to be annexed to and form part of the company's articles of association. Members may request one or more members of a company.	
By order of the boards of directors of the companies: Transfer Secretaries: Consolidated Share Registrars Limited, First Floor, 400 Commissioner Street, Johannesburg 2001 (PO Box 6105) (Market-Scan 1077) and Harrowell Registrars Limited, 9 Greenwood Place, London SW1 1PF. Johannesburg: December 22 1987	

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## FT LAW REPORTS

## Law firm validly expels partner

WALTERS AND OTHERS v BINGHAM; BINGHAM v WALTERS AND OTHERS  
Chancery Division: Sir Nicolas Browne-Wilkinson, Vice-Chancellor: December 17 1987

A PARTNERSHIP carried on by oral agreement on the basis of a draft partnership deed, is not a partnership at will but is for a fixed period and so cannot be dissolved by one partner if, on the true construction of the agreement, the parties intended it should end on execution of a new deed and not on the date specified in the draft. And even if it were a partnership at will, notice of dissolution by one party is invalid if served in bad faith, whereas the others have a non-expropriatory power to expel him if grounds for expulsion exist under the draft deed.

There had been long periods between expiry of one deed and execution of the next. When each new deed was executed it was expressed to operate retrospectively from expiry of the last deed.

The last executed partnership deed expired on April 30 1983. No further deed was executed.

A final draft of a new deed to regulate the period from May 1 1983 to April 30 1986 was prepared and circulated. Clause 17 of that draft gave power to expel in certain circumstances.

The minutes of a partners' meeting of May 21 1985 recorded that the partners had resolved that "pending adoption of a new deed" the practice should continue on the terms of the final draft deed as varied by adoption of a report by the planning committee.

Prior to July 1986 no new partnership deed had been executed. Mr Bingham became a partner in the 1970s in 1985 and 1986 questions were raised about off-shore funds with which Mr Bingham was concerned. The partners investigated the matter, but Mr Bingham failed to provide the necessary information.

Attention was focused largely on three Jersey trusts - Prime Trusts, from which £280,000 had

been paid to an Isle of Man company and then on to others: Lucas Charitable Trust, from which £225,000 had been paid away to another company; and the Sandra Natalie Miller Settlement, from which £500,000 had been paid out. The sums were not readily traceable.

The partners received ever-decreasing co-operation from Mr Bingham.

On July 8 Mr Bingham arrived at the firm's offices with notices of intention to dissolve the partnership. Two partners were away but were informed of the notices by other partners.

On July 8 the partners resolved to expel Mr Bingham under clause 17 of the final draft, on the grounds that he had committed flagrant breaches of his duties as a partner and had acted in a manner inconsistent with good faith between partners.

In the present consolidated actions, Mr Bingham claimed a declaration that he had dissolved the partnership. The partners denied dissolution and contended they validly expelled Mr Bingham.

The pleadings in the partners' action alleged that, at Mr Bingham's instigation, trust monies had been paid away to third parties without consideration, in breach of trust. Also it was alleged that he made false representations to his partners, knowing they would rely on them to their detriment.

The defence contained no traverse of those allegations. They must therefore be taken as admitted for the purpose of the proceedings. Although the words were not in the terms used, Mr Bingham was admitting fraud.

It was also alleged that Mr Bingham served the dissolution notices with a view to impeding investigation of his dealings and inflicting damage on the partnership.

The defence stated it would not contend that the notices were served with no such view. There was accordingly an admission that the notices were served with a view to impeding investigation of breaches of trust to which Mr Bingham was knowingly a party.

The questions for decision by the court were:  
1. In July 1986 was there (a) a partnership at will (the period specified in the final draft having expired); or (b) a partnership continuing on the terms of the final draft until a fresh deed was executed, pursuant to the partners' resolution of May 21 1985?

The May meeting gave rise to an oral agreement to adopt the final draft, the minutes merely being a record of such oral agreement.

Attention was focused largely on three Jersey trusts - Prime Trusts, from which £280,000 had

indefinite period, ending when the new permanent partnership deed was executed.

Accordingly, the terms of the final draft were still in force in July 1986. The firm was not then a partnership at will.

2. Could Mr Bingham dissolve the partnership by notice?  
Prima facie, not being a partnership at will, it could not be dissolved by notice given by one partner.

Section 32(c) of the Partnership Act provided that subject to agreement between the parties, a partnership "for an undefined time" was dissolved by a partner giving notice of intention to dissolve.

Mr McDonnell for Mr Bingham submitted that the partnership was for "an undefined time", not a fixed term, and that Mr Bingham could serve effective notice of dissolution.

The argument was rejected. The partnership, expressed to last until the new permanent deed was executed, was for a "fixed term", not an "undefined time". An indefinite period was not necessarily an undefined period.

It had been held by the Court of Appeal that a partnership which was to continue until dissolved "by mutual arrangement only" could not be dissolved by notice since it was for a defined time (*Moss v Elphick* [1910] 1 KB 846). The case was inapplicable and binding.

Mr Bingham therefore had no right to determine the partnership by notice.

3. Did Mr Bingham give effective notice of dissolution?  
Prior to the meeting on July 8 all the partners knew of the notice of dissolution. There being no statutory requirement for written notice, Mr Bingham did cause notice to be received by all other parties before the expulsion meeting.

Therefore, had he been entitled to serve notice of dissolution, he gave effective and valid notice.

4. Were Mr Bingham's notices invalid as being served in bad faith?  
Mr Ferris submitted that the admissions on the pleadings showed Mr Bingham served the notices with fraudulent intention - namely an intention to impede the investigation of his own fraud. He submitted that an act done to conceal fraud was itself fraudulent and void.

The general principle was undisputed - "No court will allow a person to keep an advantage which he has obtained by fraud... Fraud unravels everything" (*Lazarus Estates* [1956] 1 QB 702).

Mr McDonnell submitted that a man did not act fraudulently if he did an act which was itself innocent (ie served a notice), even if his intention in doing

that act was to cover up an earlier fraud.

An act done with intent to conceal a pre-existing fraud was itself fraudulent.

On the admissions made by Mr Bingham, he served the notices of dissolution with intent to conceal his own fraud and such intent was itself fraudulent.

As a result the notices of dissolution were of no effect.

5. Was the power of expulsion exercisable?  
Clause 17 of the final draft provided that if any partner committed "any flagrant breach of his duties as a partner or be guilty of any scandalous behaviour" it shall be lawful - to expel him". It was common ground that if the power of expulsion were exercisable, good grounds for expulsion existed.

Mr McDonnell submitted that if a power was essential to total dissolution, after the passing of the Partnership Act 1980.

In a large partnership in which the power of expulsion was normal, a power to expel which was not expropriatory was consistent with a partnership at will, and continued to apply during any period in which the partners held over after expiry of a fixed period.

Therefore, even if contrary to the court's view there was a partnership at will after April 30 1986, the power of expulsion remained exercisable and was validly exercised on July 8.

The partners were carrying on business on terms of the final draft, and Mr Bingham was validly expelled by service of the notice of expulsion.

For the partners: Francis Ferris QC, Barbara Doherty QC, and Monica Gars-Frisk (Theodore Goddard & Co.).  
For Mr Bingham: John McDonnell QC and Benjamin Levy (Philip Conway, Thomas & Co.).

By Rachel Davies  
Barrister

## Revised interest rates from the Bristol &amp; West.

The Society's rates for Mortgages and Share and Deposit Accounts are being amended.

## MORTGAGES

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No.1 - Income	£25,000 or more £500 - £24,999	7.30% 7.00%	7.55% 7.23%	10.34% 9.90%
Bristol Triple Bonus	£25,000 or more £10,000 - £24,999 £5,000 - £9,999 £500 - £4,999	7.10% 6.80% 6.55% 6.30%	7.10% 6.80% 6.55% 6.30%	9.73% 9.32% 8.97% 8.63%
Matrixcard	£500 or more £1 - £499	5.85% 4.00%	5.94% 4.04%	8.14% 5.53%
Shares (fully paid)		4.00%	4.04%	5.53%
Snoopy Savings		4.25%	4.25%	5.82%
Savings Shares		5.00%	5.00%	6.85%
Overseas Investors Bond	£1,000 or more	9.60% without deduction of U.K. tax		
Charities		9.50% gross		
AVC's		10.00% gross		

The net rates of interest on all other existing accounts on which composite rate tax is paid by the Society will be reduced by 1.00% from 1st January 1988.

Limited company and other deposits subject to basic rate tax will also be reduced by 1.00% from 1st January 1988.

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For further details please contact:  
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Tel No: 0582 410011  
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Arthur Young

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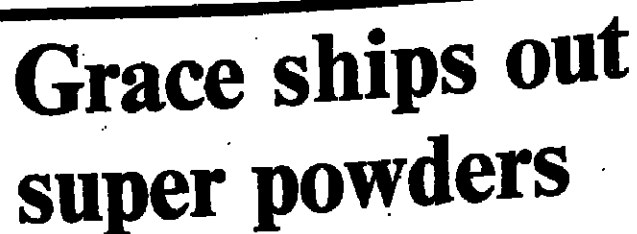
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The Financial Times proposes to publish the above survey on Friday 26th February 1988.

For further information and Editorial Synopsis please call Joe Bell on 01 248 0769.

- FINANCIAL TIMES -  
Europe's Business Newspaper





**BY JANE RIPPETEAU**

**W.R. GRACE**, the US chemicals company, has begun shipping commercial quantities of a powdered superconducting material made in a proprietary chemical process with high purity, according to Nicholas D. Spencer, senior research chemist in the Grace Research Division in Columbia, Maryland.

small quantities by researchers for their own use, according to Jeffrey Lynn, a professor of physics at the University of Maryland who has conducted measurements on the product. But the advantage, he says, is that Grace is able to produce good-quality superconducting material "in very large quantities, by the 100s of kilograms."

Grace is one of several companies now shipping commercial quantities of the material. But the substance is in demand mainly as a research product, as almost no applications have been developed yet. There is a market for kits of compacted powder sold to schools, and weapons laboratories are beginning to buy in quantity for use in heat sensor systems.

Most researchers making up their own supplies of superconductor compound physically grind and mix the metallic components, then fire them with oxygen in a kiln.

According to Spencer, the Grace material is processed from a liquid solution, and hence is more homogeneous than ground compounds.

Grace uses a proprietary process, for which a patent is pending, to convert the liquid into fine powder. The process is derived from the company's expertise in making oxide catalysts, which Spencer says have a chemistry very similar to the new superconductors.

He says the company has about 50 half dozen customers so far. The material sells for \$1,000 per kilogram.

## the high life

BY FAY QJESTER IN OSLO

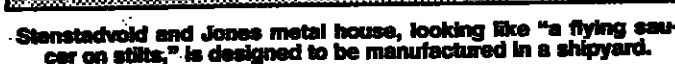
**STENSTADVOLD** and Jones an architectural partnership in Norway has designed a unique, metal house which could be assembled at a shipyard, like the superstructure of an oil platform.

The designers, of Baerum, near Oslo, are seeking to set up an organisation which can market their brainchild abroad. They aim to find a Norwegian shipyard which could assemble the house, from prefabricated components.

Another advantage is its highly efficient insulation - providing protection from both heat and cold. The pumps in its heating system can be operated in reverse, providing air conditioning in the summer. Also its air intakes are equipped with filters which, it is claimed, ensure that the air indoors is cleaner than that outside. This is expected to be

a selling point in West Germany, where a show house is to be erected.

Christen Stenstadvold, co-designer, points out that the house on display at the Baedeker exhibition was a luxury model, crammed with electronics and such features as a jacuzzi in the living room. A normal model would be no more expensive than the average cost of a Norwegian house, he says.



## Roy Garner examines the country's rapid advance into 'electronic stationery'

and with this function users can call up all the characters corresponding to a particular phonetic symbol, indicated adjacent to the Roman alphabet on the keyboard. They then use a selector button to obtain the reading required.

A phone directory function has also been popular. The PA 7000, can store 330 names, phone numbers and addresses, and users can automatically place in alphabetical order even when new names are added.

A similar function on the Casio DK-1000 unit, priced at ¥14,800, can store data on 560 people. But the big selling point for the Sharp product is, increasingly, its unique slot-in design.

The three options already on sale include a ¥10,000 translator card, which offers key phrases, under 14 headings, in either Japanese, Chinese, Korean, French, Spanish or English; a 16KB memory card (¥10,000) and the Kanji dictionary (¥7,000).

Sharp's chief product planner, Toshio Honda, says that the company will soon introduce "salesman" engineered "cost-estimation" cards, plus a special "After 5" card for gourmet diners - though no further details of

the cards' contents are yet available. Honda comments that in sales of the electronic notebook "the I/C card is a key point," and attributes the popularity of the product to the confined space available in Japanese offices and on trains, saying that "big lap top type computers are not popular; we need portable, pocket units."

Casio's response to the I/C cards comes in the shape of its IF 8100 "note-taking screen". Hand-written memos or graphics can be directly inscribed on an LCD display, and stored under a chirographic Casio spokesman, Katsuhiko Yamaguchi, says, "since its launch in mid-1987, sales of the unit have been 5,000 a month."

A possible future development is a variation of the Casio IF 8100 concept in which larger write-on screens will be networked throughout the already market saturated system in Japan. The use of hand-written memos is expected to be a very popular form of inter-department communications.

The direct transmission of such notes to a colleague's desk will allow the retention of the personal flavour of the hand-written note, combined per-

Airmax are different in product development."

Auto-diallers are being developed by all the leading companies, chasing the opportunities presented by the liberalisation of Japan's telecommunications market.

Casio's Yamaguchi says: "Within four to five years Casio could have an important stake in the telecoms industry, so the auto-dialler is a fundamental product for us."

Meanwhile, another electronic attack, Sharp and Casio have developed new products borrowing heavily from the hand-held copier concept pioneered by Plus Co. Sharp's Y29,800 Copymate uses a hand-held scanner, which feeds graphic or print images directly into a compact copier unit for hard-copy printouts.

At \$23,800 'Handy Writer 7' features a 'notebook-style' keyboard and a printer unit in its base. Stored data or images can be printed out in five colours by drawing the unit slowly across a sheet of paper. The Japanese New Year gift-giving season is sure to give a boost to the electronic stationery market, but the country's calculator makers are not out of the woods yet.

market their brainchild abroad. They aim to find a Norwegian shipyard which would assemble the houses from prefabricated components.

From the shipyard's quay, the house could be despatched by sea to the foreign customers. Stenstadvold and Jones are promising potential markets in the UK, West Germany, Sweden and Canada.

The house looks something like a flying saucer on stilts. It created great interest at a recent housing exhibition - Build for the future - held in Baerum this autumn. After the exhibition closed it was one of the first display houses to be sold.

It fetched NKr3.15m (\$271,200) and a second house has been ordered for erection in an Oslo suburb.

Because the house rests on pillars, laying a firm pre-cast foundation for it takes only a few hours, and, with the several weeks usually needed to prepare the foundations of

Stenstadvoid and Jones metacacer on silica," is designed to

IT IS vital that Japanese companies add value to their calculator-type products if the dollar they'll soon lose the whole business to the South Koreans and the Taiwanese, says Martin Roth, an electronics industry analyst with Kleinwort Benson.

Unable to compete on price alone, Japanese manufacturers are engaged in a bitter struggle to upgrade features on their conventional products or, ideally, come up with entirely new items.

Indicative of this are the many innovations emerging with the growth of a Japanese 'electronic stationery' market, which includes:

- The 'electronic notebook', which features calculator, personal schedule, telephone directory, calendar and other specialised functions within a pocket-sized unit.
- An 'automatic telephone dialler' the size and shape of a calculator, which can place phone calls with a single touch using a database of names and numbers.
- Variations on the hand-held copier concept.

The principal players in the market are calculator manufacturers such as Sharp, Casio and Canon, which have been by severe competition from producers in the newly industrialised countries of Asia.

In the case of the electronic notebook, a standard calculator format has been supplemented by alphabet and function keys and an energy-saving crystal display (LCD). The most successful of these units, and the first on the market, was the Sharp PA 7000, launched in January 1987. In this model the display, plus an integral I/O (integrated circuit) card slot, form one half of a folder-type product.

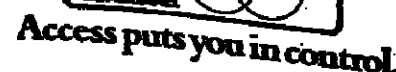
The company says it sold 200,000 units of the PA 7000, priced at ¥19,800 (C\$1) each, between January and September, and expects 100,000 sales this December alone.

Initially, most users bought the unit and a card for a 'Kanji dictionary' function. The Japanese often have great trouble in remembering how to write the thousands of Chinese characters used in the country's mass trans-

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# FINANCIAL TIMES SURVEY



**Yugoslavia, with inflation approaching 200 per cent, a \$17.5bn foreign debt, its industry in shackles, and a Federal government weakened by regional rivalries, hopes its good intentions will help secure easier debt repayment terms. Creditors have little option, believes Larry Klinger.**

## Promises fail to convince

YUGOSLAVIA'S perennially optimistic government is maintaining a show of cheerfulness but a note of desperation is increasingly being sounded in Belgrade. Earlier this month the country's deputy premier Jazek Zmajević warned that "total economic collapse" was imminent if foreign creditors did not grant a reprieve on debt repayment. That was no overstatement. Inflation, now 170 per cent, is climbing steadily. Foreign debt at \$17.5bn equals 10 per cent of gross domestic product, while debt servicing eats up half the country's foreign currency earnings. Unemployment at 17 per cent has sharply increased tensions among the workforce arising from low wages and falling living standards. Strike activity has risen to unprecedented levels, with an estimated 200,000 workers involved in more than 1,300 strikes this year. Meanwhile confidence in the banking and financial community has been badly shaken by the Agrokomerc scandal, which revealed financial and political corruption in a major state food company. The government's promises of (and economic rectitude) tomorrow no longer convince even its supporters, however much sympathy they may feel for those struggling with an

impossible task.

The authorities have tried to put a brake on the economic downhill slide with successive reform packages, austerity measures and stabilisation programmes. But none has yet had any marked impact other than to exacerbate social unrest.

For years the Yugoslav authorities have relied on the country's unique position of non-alignment with East or West - in the East but not of it - as insurance against economic disaster. No one, they calculated, and rightly, would be prepared to stand by and watch them slide down the plughole.

That still appears to be the case. But western creditors are becoming increasingly impatient - their sympathy for the Government's intractable political problems is wearing thin. And the present mood of rapprochement between Moscow and Washington will not help Yugoslavia's pleas for consideration as a special case.

Yugoslavia, both within the government and outside it, are the first to identify their problems and their inability to deal with them, with a candour all too rare among their socialist neighbours.

But there is one abiding problem, from which all others grow, which cannot be easily discussed: the system bequeathed

by Tito has proved unworkable. So long as Yugoslavia was led by a man of his stature, skills and historical credentials, the task of reconciling the national interests of the six republics and two autonomous provinces was manageable. But the system of Federal Government could only work, it seems, with a figure at the centre strong enough to bang heads together or persuade republican leaders to see their true interests as lying in compromise and national unity.

In this, Mr Branko Mikulic, the Prime Minister, has been no more successful than his predecessor. Slovenia and Croatia, with living standards reflecting their proximity to Austria, perceive their interests on most questions as lying in a very different direction from those of less-developed Macedonia, or Bosnia-Herzegovina. And signs of resurgent Serb nationalism, currently causing disruption in the League of Communists in Serbia, is deeply unsettling to the smaller ethnic units.

The result is that while there is a high degree of consensus on the need for economic reform in the direction of market orienta-

tion, agreement on specific measures is almost impossible without a long haggling process during which many if not most of the teeth are removed. Implementation is even slower and more difficult. The paralysis is not total. Last month the dinar was devalued by 25 per cent to boost the competitiveness of exports. Prices, after hefty rises in some basic goods to remove the greatest disparities, have been frozen. Interest rates have been raised, and a bankruptcy law not only introduced, but also used to wind down the Agrokomerc company.

More important for the medium and longer-term, the federal authorities have secured the backing of the republics to reopen negotiations with the International Monetary Fund for new standby arrangements, with all the strict economic conditions that this would imply. This is a humbling blow for the Government, which only last year escaped from six-and-a-half years of strict economic supervision through successive standby arrangements. But a new arrangement is needed if the Government is to reach agreement with its foreign creditors



## Yugoslavia TRADE AND INDUSTRY

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Trade: Moving towards a freer market in order to boost exports industry: Planners aim for more realistic targets 2

Grappling with inflation: an uphill struggle for budding entrepreneurs 2  
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Illustration by Ingram Pitts

on debt rescheduling. The authorities are hoping for a conventional one-year, \$500m standby arrangement, with a year's grace on repayments and then repayment over three to five years, coupled after the first year with a three-year, \$1bn Extended Fund Facility of, say, four-year's grace and repayment over six years.

In the interim, between the conclusion of the last standby arrangements and the present, the Fund has been operating an "enhanced monitoring" of the Yugoslav economy, with regular tours of inspection by IMF fund teams advising the Yugoslav authorities and reporting back to creditors.

Yugoslavia's policy-makers believe nothing less than an internationally supported programme can reverse the country's economic stagnation and achieve the growth demanded by its official and unofficial creditors. International financial institutions hold about 35 per cent of Yugoslavia's external debt, governments about 35 per cent and commercial banks about 30 per cent.

"We repaid \$1.5bn of our debt last year and another \$600m to \$700m this year," says one of the Government's senior financial policy makers. "We may be the only heavily indebted country that has managed in this period to reduce medium and long-term debt and we still managed to grow in several macro-economic categories, although in a very small way."

Yugoslavia has always been moderate and realistic in its rescheduling and refinancing requests, says one of the Government's leading negotiators in the IMF talks. "But our patience may be running out," he adds, "our voice hardening. Everyone must realise that it is obvious that we cannot meet our obligations at the price of negative growth."

"We have stumbled along, yes, for two or three years, but industry is now obsolete, we can't get raw materials, our technology is insufficient, and we simply may not be able to produce."

Signs that conservatives are regaining considerable influence in the country's republics and autonomous provinces are causing the reformers in Belgrade considerable headaches. For if the trend continues, it can only reinforce regional rivalries and policy differences, further stalling the machinery of decision-making.

Some reformers fear that the economic crisis could provoke a

resurgence of Stalinist attitudes. But optimists insist that they detect a sense of urgency pervading the country, a realisation that the seriousness of the economic situation requires decisive action.

There also appears to be a genuine improvement in relations - not long ago exceedingly frosty - between the country and the international financial institutions and banks. Yugoslavians involved in overseas negotiations claim that the IMF and the World Bank are showing much more understanding these days of Yugoslavia's administrative and political pressures.

There are differences of opinion on which measure should follow which measure and at what speed, said one government foreign policy maker. "They want us to move more quickly but they now understand that to try to turn the country into a market economy overnight would be disastrous." Yugoslav industry as a whole still sees profitability and efficiency as secondary to maintaining good relations with government, unions, and banks; to the need to preserve jobs, raise prices and/or wages; and to increasing investment.

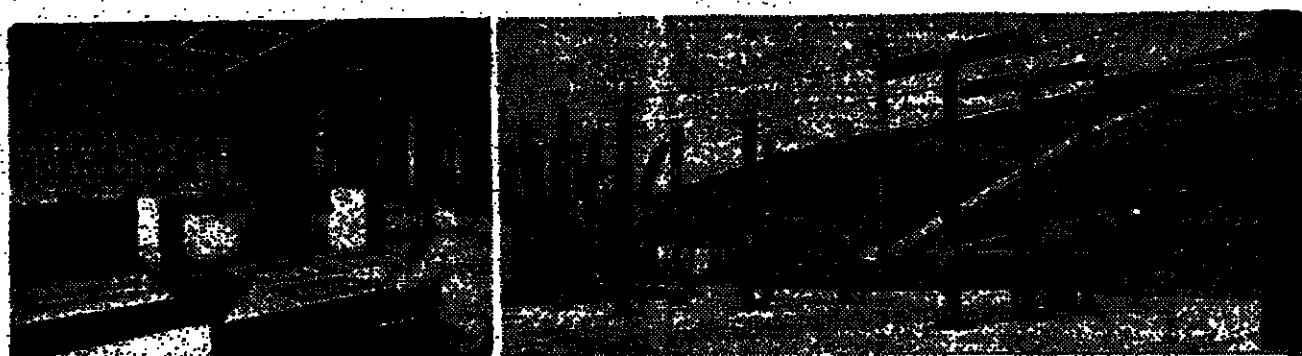
Meanwhile, the Yugoslav federal authorities are wrestling with foreign debt, export incentives, foreign exchange liberalisation, import liberalisation, banking reform, bankruptcy law, control of domestic demand, taxation reform, political as well as economic accountability, the encouragement of joint ventures with foreign companies to attract investment, movement towards a functioning capital market, and interest-rate policy.

Not long ago, Mr Mikulic, who came to office with a reputation for hard-nosed realism, was given only a 50-50 chance of serving out his full two-year term.

Now the punters say that if he can win backing for economic reform in the National Assembly, and secure the support of the country's international creditors, he might well be around for a further two-and-a-half years.

"If the authorities can agree to get on with reform - especially on the basis of a majority rather than the customary, time-consuming consensus - it will be a monumental achievement," says a prominent Western diplomat. "At least everyone in the country seems to be reading the same sheet music. But let's hope it's sooner rather than later."

Larry Klinger



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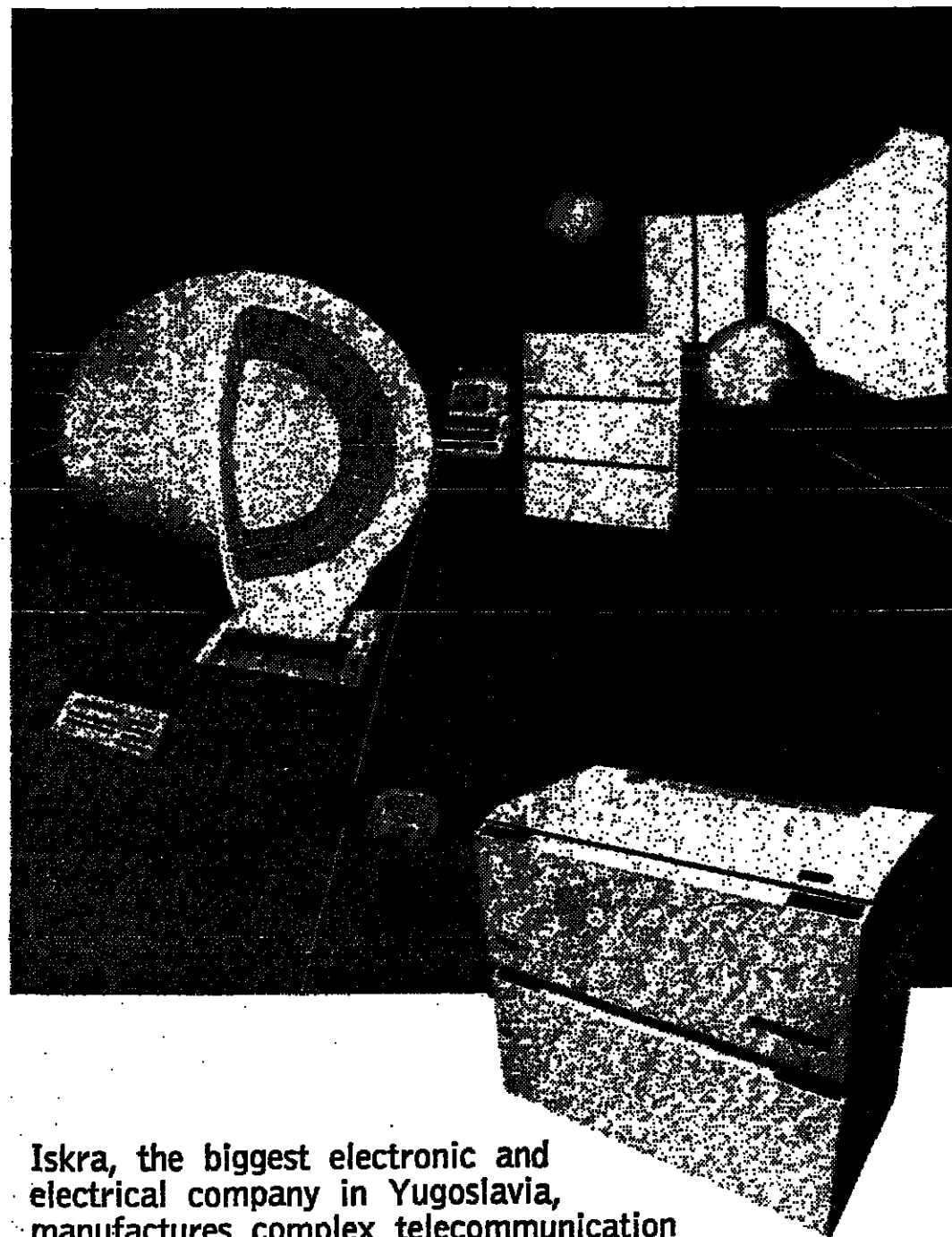
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## YUGOSLAVIA 2

Export-oriented trade should  
be given a boost by  
proposed economic reforms

Towards a  
freer market

YUGOSLAV TRADE policy for the coming year assumes a measure of success in the federal authorities' declared aim of restructuring the national economy. The planners have emphasised export-oriented production rather than overall growth in industrial output, and import liberalisation rather than the need to protect uncompetitive industry.

The reasoning is simple. Crippling foreign debt and soaring inflation have starved industry of the funds to buy inputs of sufficient quantity and quality, or the technology with which to modernise. At the same time, over-protected producers had little incentive to compete on an increasingly sophisticated world market. So fulfilling the planners' programme will require substantial progress in the economic reforms about which the authorities have been talking for so many years.

However, export promotion has begun with the recent devaluation of the dinar by an aggressive 25 per cent, and plans to slash restrictions on imports, reducing the proportion of imports covered from 80 per cent to about 25 per cent, are expected to be implemented within three years.

Moreover, the Government is pledged to liberalise further its foreign exchange policy in order to allow industry to retain more of its earnings from abroad for buying raw materials, equipment and high technology.

Industrialists are pressing for more leeway and appear to be making some headway with the politicians, not least because of support from the nation's banks, which still feel compelled to support many uncompetitive concerns.

However, while this year's export volume overall is an estimated two per cent less than in 1986, mainly due to the deterioration in trade with Eastern Europe, sales to the hard-currency world have increased by an estimated 2.2 per cent.

This, according to a senior economic policymaker, was despite our exporters having to pay what was in effect an extra tax. "Not only were they burdened by a lack of foreign exchange because of our external debt situation, they had to pay the price for the previous period of being unable to buy raw materials, and equipment."

The latest government figures show total exports for 1987 (Jan-

uary to November) worth \$9,700m against \$9,240m in the same period of 1986 and, exports to hard-currency countries, \$7,330m against \$6,300m.

The trade deficit for the same period has fallen to \$1bn from \$1,920m in the 1986 period, but this is almost entirely due to the drop in imports to \$10,700m from \$11,360m in the 1986 period.

High prices and avid demand on the domestic market remove the incentive to raise quality and modernise technology, so as to be able to compete internationally.

Yugoslavia's economy is not the only one to have deteriorated: weakness in the economies of the developing countries has forced a significant change in Yugoslavia's trading pattern.

With its own growing foreign exchange difficulties matched by those in the developing world, countertrade is surging.

Energoimport, Yugoslavia's leading construction and consulting engineering exporter, had no barter arrangements five years ago but now reckons nearly 20 per cent of its business abroad involves countertrade.

The company, which specialises in a wide range of civil engineering works and industrial and housing projects, uses trading companies in several coun-

tries to process its increasing number of deals involving such products as Malaysian tin, rubber and spices, Ugandan coffee and Peruvian iron ore, and says it is on the verge of completing a countertrade arrangement with the Soviet Union.

Meanwhile, Yugoslavia itself is pinning some of its trade hopes on the Soviet Union, which has a trade deficit with Yugoslavia in excess of \$1bn. While it is inequivalent to hear official criticism of Soviet policy, much less of the Soviet leader, Mr Gorbachev himself, there are clear indications that Yugoslavia would like Mr Gorbachev to act on the issue when he visits Belgrade later this month or early in the new year.

Yugoslavia has little need for most Soviet goods, the poor quality consumer goods and the standard machinery and equipment but none the less, Yugoslavia believes there is some scope for increased trade in oil, steel and coke.

Lack of quality, coupled with the fact that, like the Soviet Union, East European countries rarely pay in hard currency for Yugoslav goods, has reduced trade between Yugoslavia and its partners in the eastern bloc.

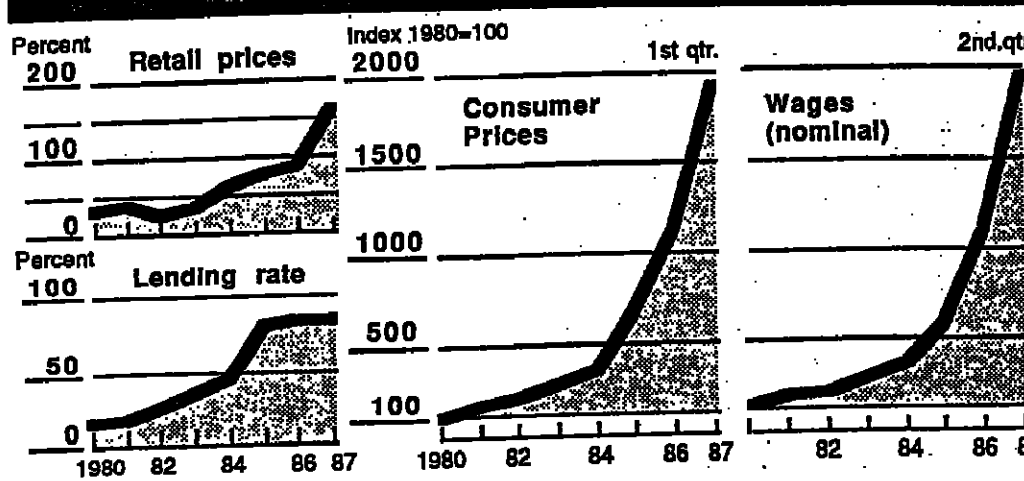
They remain important suppliers of raw materials, and potential growth markets, but Yugoslavia, while still wanting to buy more in the east, is pinning its hopes for next year on continuing to export its goods to the hard-currency area and on countertrade where it cannot match export credits and soft loans from other countries.

Draft planning forecasts estimate export growth at 4.9 per cent next year, and imports growth at 7.3 per cent, with imports of industrial inputs rising by 5 per cent and purchases of equipment by 12 per cent.

Sceptics worry that traditional Yugoslav slowness in reaching collective agreement and implementing decisions may defeat efforts to control the country's runaway inflation. Even the sceptics, however, profess to see a new trend of realism in the country.

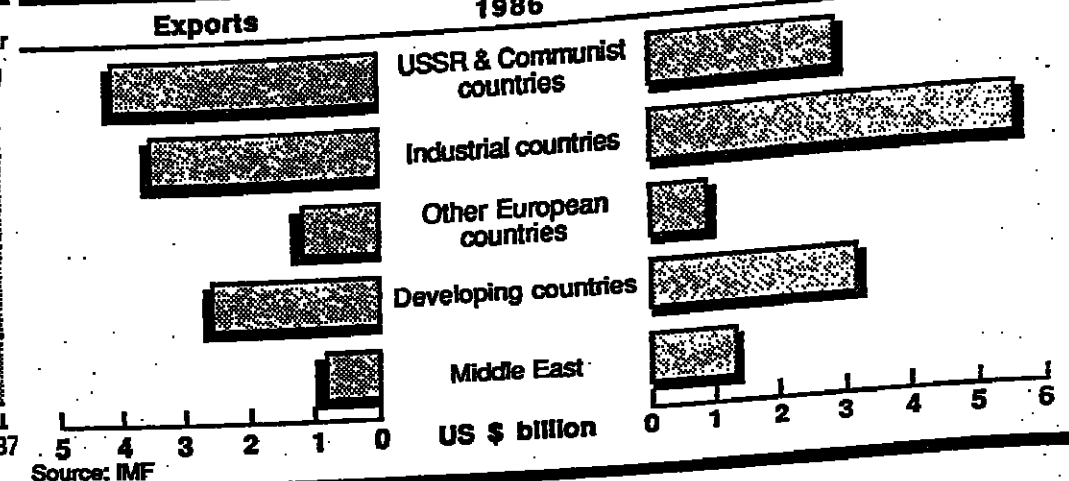
Larry Kilger

## Inflation and its effects



Source: IMF

## World trade



Source: IMF

Crippling foreign debt and soaring inflation have starved industry of funds

## New plan sets realistic targets

YUGOSLAV PLANNERS optimistically forecast a 3.5 per cent growth in industrial output this year. Now, with a week to go, they will be pleasantly surprised if the figure reaches 1.5 per cent.

The target has been missed, they say, mainly because of an inadequate supply of imported inputs, resulting from the shortage of foreign exchange.

The plan envisaged a 4 per cent rise in imports in 1987. Instead they will fall by an estimated 3.2 per cent. In the short term, that will help the balance of payments in the longer term, however, it will harm exports and consequently the balance of payments, and the fall in imports of equipment and technology will further delay the necessary restructuring and modernisation of industry, further reducing its competitiveness.

Aware of the dangers inherent in reduced imports, planners have set a target for 1988 of a 7.3 per cent increase in imports. For the first time, import growth would exceed planned export growth, set at 4.9 per cent.

Within that, imports of equipment would rise 12 per cent. Industrial output next year, according to the draft 1988 plan, should rise 2 per cent. According to Dr Zarko Papic, chief federal planner, many consider that too low; politicians insist that Yugoslavia needs much higher growth, he says, but overlooks the fact that this is impossible. As he sees it, planners have merely substituted realism for wishful thinking.

Any growth in industrial output will, it is hoped, be mainly export oriented. The draft 1988 plan is the first to give export expansion higher priority than raising industrial production.

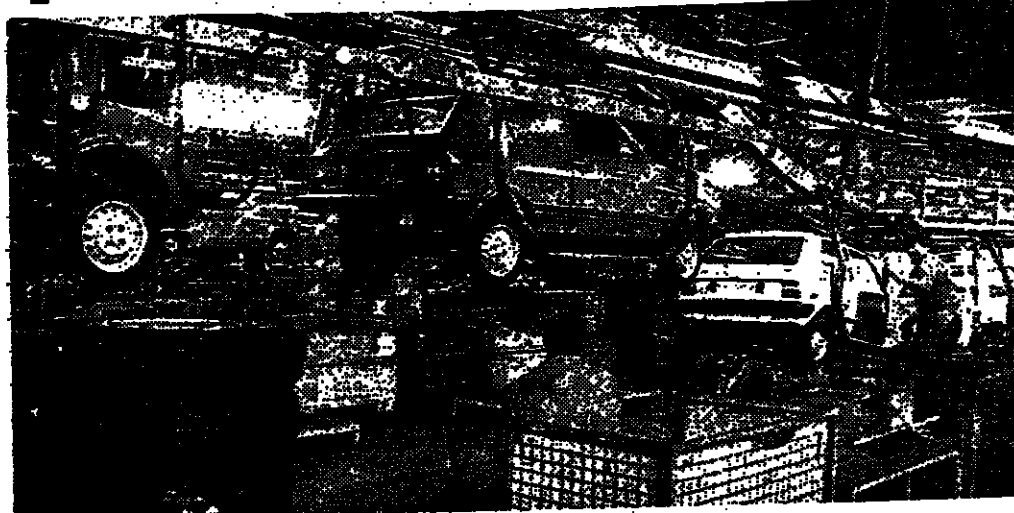
But increasing export orientation will require a little help, in the form of export credits for example, without which industry cannot compete even if it offers good quality and low prices. The Yugoslav bank for international economic co-operation (the Yugoslav equivalent of ECOC or Exim Bank) has limited resources to support the export drive. So more firms may suffer the fate of the 3rd May shipyard in Rijeka, which lost orders because it could not finance the export of its ships.

As Mr Johan N Gerrard of the Gerrard Management Co, recounted recently: "My company would like to do more business with 3rd May. This year we worked very hard to contract two product carriers for the Norwegian Statol. Towards the final stages of these negotiations we learned that the Yugoslav export financing of the ships was not available any more. And the business went to a Spanish yard."

While trying to help manufacturers and exporters to compete abroad, the Government will use the available foreign exchange to raise imports, create more competition and break existing monopolies, forcing local producers to raise quality and cut prices.

Imports of consumer goods next year are planned to rise 19 per cent, after an estimated 20 per cent rise this year. But the share of consumer goods in total imports is only 8 per cent.

Austerity measures introduced late last year have depressed domestic consumption, leaving more goods available for export. Industries, including footwear,



Production line for the Jugo 55 car at Zastava, Serbia



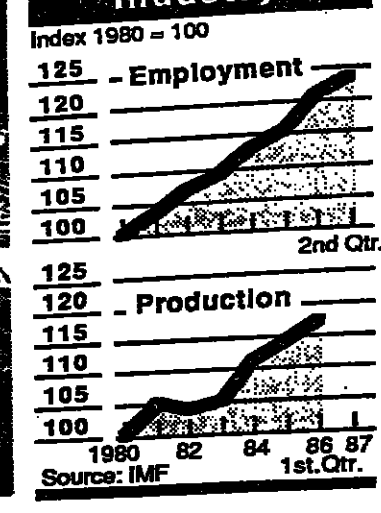
Goods and rail vehicles assembled at the Gosa plant

furniture and textiles were among those first affected and it is hoped that this will galvanise them into export-oriented production.

But the austerity measures also exacerbated unrest in the country's labour force. Strike activity more than doubled, with more than 200,000 workers involved in 1,300 strikes in the first 11 months of the year. Most of the strikes were short, lasting only a few hours or a day or two, but some were longer and more serious with workers demonstrating on the streets in protest not only against management but also against the government measures.

Ostensibly outrageous demands for wage increases of up to 100 per cent have been met, provoking the trade unions to demand inquiries and punishment of those responsible, whether they paid money that was available (in which case they should not have waited for workers to strike) or whether borrowed funds, or diverted resources set aside for other purposes.

The situation would worsen if the legislation on bankruptcies were to be strictly applied. An



Source: IMF

## Economic indicators

	1987	1986	1985
GDP	30	28	28
Industrial output	35	35	35
Agricultural production	25	-50	40
Industrial employment	24	25	10
Unemployment in industry	10	-10	10
Real personal incomes	05	-50	-05
Living standards	12	05	13
Trade exports	45	-20	49
Hard currency exports	63	22	50
Imports	40	-32	73
Gross investment	40	-30	25
Inflation	-01	11	-28
Public consumption	-05	-32	
Private consumption	29	-24	

Source: The Federal Planning Office

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## YUGOSLAVIA 3

## External debt

Payments need  
rescheduling

THE DECISION announced this month to seek International Monetary Fund aid to help dig Yugoslavia out of its economic crisis has provided an unpalatable seasonal helping of humble pie for the government of Prime Minister Branko Mikulic.

It was in May 1986, when Mr Mikulic took over for his four-year term, that the IMF's 6½ year monitoring of the Yugoslav economy ended.

Now the government, faced with soaring inflation, strikes and bankruptcies, and a \$17.5bn foreign debt, has agreed again to submit to IMF supervision, barely a year after rejecting this course of action. It is a move which will not be applauded by those who want to see the government moving toward a command economy and away from market orientation.

Officials in Belgrade believe the most likely outcome of the IMF negotiations would be for a \$500m standby agreement to be disbursed in the first year and repaid after a one-year grace period over 3 to 5 years. Then an extended fund facility of over \$1bn would cover three years, and be repayable over six years, after a three to four year grace period.

The other elements being sought include \$600m from the World Bank in 1988, including a structural adjustment loan of \$200m to \$350m, and \$100-\$150m of loans for export-oriented projects.

Apart from other loans from sources such as the European Investment Bank, official creditors will be asked to increase their loans slightly to \$2bn from \$1bn-\$1.5bn. Foreign commercial banks, which have been pressing for IMF supervision, will also be asked to provide fresh money in rescheduling talks.

The decision to call in the IMF follows an austerity package agreed last month by the Federal Parliament. This package, announced to try to stem an inflation rate which the government forecast would otherwise rise to 220 per cent by January, included drastic increases in the price of many basic goods and services, followed by a general



Prime Minister Mikulic: eating humble pie

price freeze until the end of next June. Wages and salaries are also under strict controls which would mean they would fall substantially in real terms.

Yet the package, followed by a 24.6 per cent devaluation of the dinar, was greeted by creditors as hasty and ill-conceived and, internally, by increased strikes. The pressure remained on for supervision by the IMF, rather than the so-called "enhanced monitoring" in effect since May 1986.

The foreign debt problems of the Yugoslavs have been worsened by an over-ambitious repayments schedule this year, which meant that debt servicing was taking 45-50 per cent of the country's foreign exchange earnings and nearly 10 per cent of its gross national product.

The government now says it wants to reduce debt servicing to 25 per cent of export earnings.

A bunching of repayments meant that some \$2bn of interest

and more than that in principal fell due this year, but, in the 18 months prior to June when a delay was announced in principal repayments to banks, it had even made some prepayments.

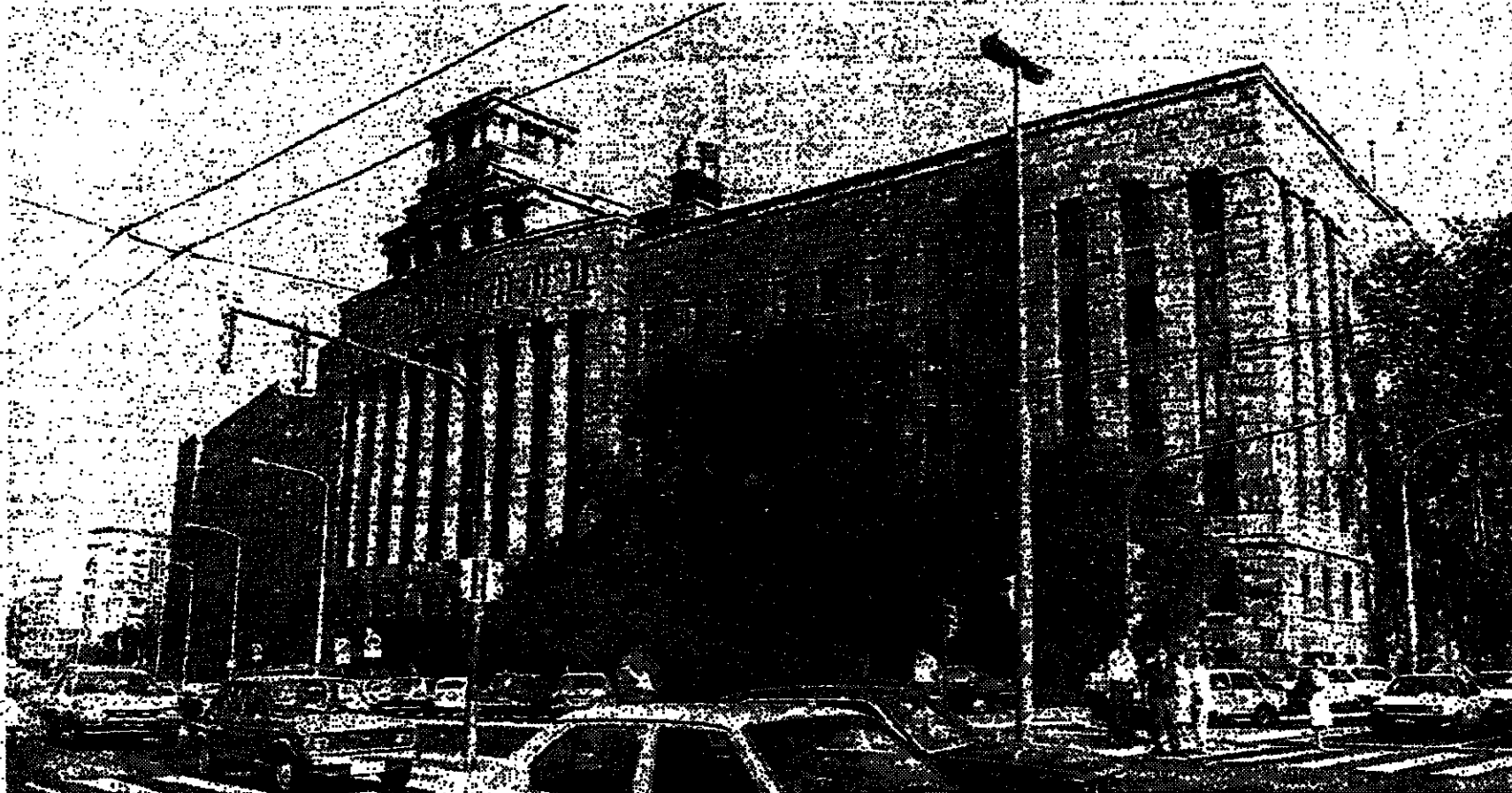
In June and July, it was granted a 90-day extension to two principal repayments of \$245m and this was extended in September until the year end. Bank debt accounts for some 70 per cent of the country's total foreign debt and the loans affected by the delay were restructured in a 1983 accord. Loans agreed subsequent to that are still within their grace period.

The prospects for the early part of 1988 are for a series of protracted negotiations. Talks with the IMF are unlikely to be completed before February. Then, government and bank creditors must be accommodated.

Stephen Fidler



Economic problems lead to social tensions in Belgrade



The central bank in Belgrade: a wider role suggested

## Banking

## Fresh efforts on reform

YUGOSLAV COMMERCIAL banks are not banks in the usual sense. They have been and remain service shops for enterprises.

They are provided for in the 1974 constitution which stipulates that economic enterprises and other organisations may send specialist agencies to look after the conduct of credit and other bank activities, and pool in them the resources required to pursue common interests and fund the performance, expansion and promotion of their activities.

Enterprises founding banks enjoy a special status as shareholders. They manage the banks' business and receive an income from their activities, after operational costs and allocations to employees have been taken into account.

Hence, Yugoslavia's banks are not independent financial institutions and, as a result, fundamental principles of banking, and in particular principles of security, profitability and liquidity, have often been sacrificed

for the benefit of other objectives, as one large bank put it recently.

The excessive influence of the banks' parent enterprises and of political factors, have, for example, reduced capital flows across regional boundaries, and encouraged non-observance of monetary and credit policy measures, poor scrutiny of investment projects, and irregular or grey money issue.

A growing awareness of the need to reform the banking system, and make it more responsive to market forces has been reinforced by the Agrokomerc scandal. In this instance, a regional bank, the Bihac Basic bank, supported Agrokomerc (the major state food company) financially by guaranteeing its unbacked promissory notes for almost \$1bn.

Even so, progress towards reform has been slow. Two years ago, the Government tried to reduce the number of banks, by setting a minimum for assets

which banks must hold to be able to continue operating.

At the time, it was thought that about a third of the country's 168 commercial (basic) banks would have to close. Yet none did: the high level of inflation enabled almost all banks to revalue their assets to meet the legal minimum; and political pressure in many localities to maintain "their own" bank intensified. This led to additional resources being scratched together to keep many local banks afloat.

But fresh efforts to reform and enhance the independence of the system are now under way. The latest proposals include enhancing the role of bank managers by making them fully responsible for their operations, a move which, it is hoped, will result in sounder banking practices, better scrutiny of investment projects, more adequate investigation of the creditworthiness of potential borrowers, and greater respect for the law.

Banks which cannot operate

profitably under the new conditions will be allowed to go to the wall, a fate which hitherto has been unimaginable. Until recently, Yugoslav law did not provide, even hypothetically, for bank bankruptcy and liquidation. Only when the Bihac Basic bank collapsed in the wake of the Agrokomerc scandal, were amendments to the Bankruptcy Act hastily introduced.

Bankers insist that, no matter how well the banking reform is formulated, it will not work unless it is part of much wider reform of the economic and political system. They argue that it will only produce results if and when Yugoslavia becomes a market-oriented economy with free flows of merchandise, capital and labour.

It is also being increasingly suggested that the national bank should be given a wider role and supervisory powers over the commercial banks on condition that it does not compete with them as another commercial banker.

The national bank system presently comprises the federal national bank and eight national banks of republics and provinces. Streamlining it to speed up decision-making at the federal level, would mean a higher degree of centralisation but only of policies decided by consensus in the federal parliament. But whether this happens depends, as everything else in Yugoslavia, upon the power relationships among constituent republics and provinces, and also the battle between the reformist and conservative forces.

At present the national bank is little more than a department of the Ministry of Finance. Many feel that it should be more independent of the federal government, that it should be directly accountable to the federal parliament, and that it should be responsible for the implementation of monetary, credit and other policies decided by the parliament.

Aleksandar Lebl

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## YUGOSLAVIA 4

Problem of living with inflation nearing 200 per cent

## Enterprise struggles uphill

IF THERE'S one glimmer of hope that might eventually emerge from Yugoslavia's crippling economic crisis it is that the small-scale enterprise lobby might be able to exert more pressure on the authorities so that they can be released from the overbearing supervision of the state bureaucracy and run their enterprises as they see fit.

The crisis has been depressing for small-scale private enterprises. While the large, heavily subsidised industries still continue to be bailed out by the Yugoslav authorities, in spite of the bankruptcy law introduced last July, small enterprises receive little such help. They have been fighting a long battle in trying to contain wages at a time when inflation is running at over 160 per cent per annum.

Living with inflation is not easy for a small enterprise employing (on a restricted basis) small numbers of people. In normal free-market conditions employers can make decisions about incomes and salaries.

In Yugoslavia, however, in spite of the apparent flexibility and openness of the system, ideology still wields an enormous influence in the running of the economy, a message which was brought home during an important conference on small private business held in Belgrade between November 9-11.

Mr Majin Rozic, President of the Yugoslav Assembly, presented a paper in which he said holder measures were needed to develop small-scale private enterprises. More importantly, he said that small enterprises were still hampered by what he called "many ideological barriers which equated private enterprises with speculation and unjustified accumulation of wealth."

Not afraid of attacking the status quo, Mr Rozic said that "resistance was coming chiefly from people who were afraid of competition and of losing their monopolistic position."

The statistics speak for themselves. According to Mr Rozic, at the present rate of development it would take 25 years for small enterprises to reach the desired 20 per cent share of the country's total economic output.

Last year, the share of the private sector had reached only 5.7 per cent of total production. Mr Rozic also pointed out that in the past five years, the number of privately-owned shops in Yugoslavia had increased by 28 per cent and the number of employees by 36 per cent. In other words, some 150,000 owners had taken on another 420,000 workers - implying the state should be at least grateful and recognise the potentialities of the small-scale private sector.

The private owner who can employ ten workers at most should be permitted to make room for ten times as many and to become entitled to reduced taxes on net incomes ranging between 80 and 90 per cent, Mr Rozic passionately argued.

Ideology, however, is only one problem. Yugoslav enterprises have to face the day-to-day problems of coping with inflation, strikes and endless bureaucratic and administrative measures passed down from above.



Soaring prices dominate cafe talk in Belgrade

scale private sector.

The inflation is obviously the most damaging. "No enterprise can make investment decisions because he simply does not know what price raw materials will cost tomorrow or next month," one Yugoslav economist commented.

There is also the persistent problem of limited access to hard currency. With the external debt running at over US\$20bn, the

Yugoslav authorities have tightened up the banking system with the aim of restricting imports and the flow of hard currency out of the country.

"But there are certain materials we need and there are certain long-term investment projects we have to undertake," a Yugoslav businessman explained. "Under these conditions, with all the restrictions on hard currency and imports, it is very difficult to look ahead."

On top of that, the enterprise manager is limited by his wage fund - a kind of enterprise budget. Once that runs out, which has frequently happened over the past year, the manager will either have to surge ahead with production in the hope of generating compensating revenue in order to meet workers' wages or else cut back on the workforce.

The political truth is that the curtailment of inflation is most likely to have a price in terms of enforced (and even higher) unemployment, something which the Yugoslav authorities are reluctant to face up to. When Mr Branko Mikulic, the Prime Minister, tried to introduce a partial wage freeze last February this led to widespread strikes.

Meanwhile, unemployment is already hovering around 18 per cent and even reaching 30 per cent in the less-developed regions such as the autonomous province of Kosovo. Hence the predicament facing the small-scale enterprise.

In this situation, wages keep going up with inflation or else we risk strikes, a slow-down in production and a loss in revenue. We have to pay wages to the workforce which take into account the spiralling inflation. It is a vicious circle. But what is the choice?" asked an economist from Nin, the Belgrade-based political weekly.

The choices are far from easy. Enterprises choose between paying the work force more, laying off the work force (and risking strikes) or else declaring the enterprise bankrupt. Judging from figures recently released from the Yugoslav authorities, over 807 enterprises recorded losses of over 288,400m (\$212.67m) during the first six months of this year. They have a six month reprieve in order to pull out of the red but under the present economic conditions, only the toughest will survive.

Judy Dempsey

## Legislation

## Shift of power sought



Consensus is difficult to achieve when the national interests of six republics and two autonomous provinces act as a brake on making economic decisions

personal taxation is being proposed and the introduction of family, instead of individual, taxation is being considered. In the field of corporate taxation, an attempt will be made to start taxing corporate profits rather than income, a major departure from the old philosophy. VAT will be studied with the aim of introducing it at some future date.

Foreign trade and foreign exchange restrictions may be eased, for example giving exporters the automatic right to repurchase part of their foreign exchange earnings (dispensing

with the old system of retention quotas) and exposing them to exchange rate losses.

Legislation in these areas has not been implemented because of foreign exchange shortages. Most of the time, article 110 of the Foreign Exchange Act, setting payment priorities, has been applied. It was meant as a temporary solution but, in Yugoslavia, nothing is as permanent as temporary solutions.

The Government has high hopes that its proposed joint venture legislation will attract more foreign investment. The plan is that the law should not try to regulate everything but leave most things to a contractual partner, i.e. Yugoslav companies and foreign persons investing money in them. Provided they sign a seven-year contract and that the foreign equity is at least a quarter of the total, the joint venture would not pay import duties and other levies on equipment.

It would be entitled to its own foreign exchange banking account and to an account abroad, which Yugoslav companies are not permitted. The foreign partner would have more rights in management and could repatriate profits and capital after winding up operations.

A constitutional amendment will enable foreign investors to establish either their wholly-owned companies or joint ventures with Yugoslav companies in industrial zones on Yugoslav soil.

Of course, legislation alone cannot bring foreign investors flocking to Yugoslavia. They will also be looking at the overall political and economic situation. At the moment the prospects are bleak.

Aleksandar Lobi

## zagreb fair

## INTERNATIONAL EVENTS PROGRAMME IN 1988

- |   |           |
|---|-----------|
| INTERTEXTIL - 15th International Textile and Supporting Industry Fair   | 29.1.     |
| INTERNATIONAL COSMETICS AND HAIR STYLISTS' EQUIPMENT FAIR   | 29.1.     |
| 37th INTERNATIONAL LEATHER, FOOTWEAR AND CLOTHING WEEK  | 29.2.     |
| YU TRADE - Internat'l Fair of the Equipment for Shops, Warehouses, Materials Handling & Export Promoting Services                                     | 7-11.3.   |
| MODERNPAK - 13th International Packaging Fair   | 7-11.3.   |
| PLASTEX - 14th International Rubber and Plastics Fair   | 7-11.3.   |
| AMBIENTA - 15th International Furniture, Timber and Supporting Industry Fair  | 8-9.4.    |
| SPECIALIZED ZAGREB INTERNATIONAL SPRING FAIRS   | 19-24.4.  |
| 28th INTERNATIONAL AGRICULTURAL AND FOOD INDUSTRY FAIR  | 24.4.     |
| 35th INTERNATIONAL CONSUMER GOODS FAIR  | 24.4.     |
| 30th INTERNATIONAL SMALL-SCALE INDUSTRY AND CRAFTS FAIR, AND "DO IT YOURSELF" EXHIBITION  | 24.4.     |
| INTERNATIONAL DAYS OF TOURISM - International Tourist Office  | 24.4.     |
| - TOURISTINVEST - Tourist Equipment, Technology and Engineering program   | 24.4.     |
| - GASTROFEST - Gastronomy and Culinary Program  | 24.4.     |
| - SPORTEX - Program of the Equipment for Sport, Camping and Leisure Time  | 24.4.     |
| - INTERNAUTIKA - Program of the Equipment for Nautical Tourism  | 24.4.     |
| INTERDISC - 13th International Show of Sound and Picture Recording and Reproduction Appliances  | 24.4.     |
| INTERLIBER - EDUCA  | 24.4.     |
| 8th International Exhibition of Books and Equipment for Bookshops and Libraries   | 24.4.     |
| 11th International Exhibition of Training and Educational Equipment and Aids  | 24.4.     |
| INOVA '88 - 16th Exhibition of Innovations, Technical Advancements and Novelties  | 24.4.     |
| 14th INTERNATIONAL BUILDING FAIR  | 24.4.     |
| 12th INTERNATIONAL MINING FAIR  | 24.4.     |
| 12th INTERNAT'L EXHIBITION OF AIRCRAFTS AND THE EQUIPMENT FOR AIRCRAFTS, AIRPORTS & FIRE-FIGHTING   | 18-22.5.  |
| MEDICINE & TECHNOLOGY - 18th Internat'l Exhibition of Medical, Pharmaceutical and Laboratory Equipment  | 22-27.5.  |
| BIAM - 9th International Machine-Tool and Tool Fair   | 13-18.6.  |
| ZAGREB INTERNATIONAL AUTUMN FAIR  | 11-18.9.  |
| INTERBIRO - INFORMATIKA - 20th Internat'l Exhibition of Information Handling Equipment, Communications Systems, Data Processing and Office Equipment. | 17-21.10. |

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ZAGREB FAIR WHERE YOU GO IN YUGOSLAVIA FOR BUSINESS

## Important role of invisible earnings

## Wider options

THE YUGOSLAV hard currency trade balance has been improving but it will not show a surplus for some time to come. Invisible earnings will therefore continue to play an important role in creating a current account surplus which should enable the country to service its debt, to finance imports needed to keep industrial production - especially export-oriented - going and growing, and to increase imports of new technology for the modernisation and restructuring of the economy.

The latest available data on the current account, for the January-August period of 1987, show that against a deficit in hard currency, merchandise exchange of \$895m (\$1,541m in 1986), and in interest payments of \$906m (\$1,108m), there was a surplus in invisibles of \$1,421m (\$1,532m). Of that, services brought in net \$1,672m (\$1,558m), and private transfers a net \$667m (\$913m).

As far as workers' remittances are concerned, the Government's aim is to do all it can to

increase them. It has however been criticised for being clumsy in doing so. The switch from interest paid in foreign currency to interest paid in dinars for workers who return, the way of calculating interest rates on the basis of rates abroad, and limits on the amount of cash that may be withdrawn - all have had negative effects.

Added to that have been rumours, consistently denied, that the Government intends turning foreign currency into dinars accounts, and this coupled with poor service in some Yugoslav banks, has contributed to slowing down remittances. Workers who come home for holidays bring part of their savings in cash and sell it on the black market.

The Government intends to increase incentives for Yugoslavs abroad to keep their savings in banks at home and to invest them in their country. It is estimated that Yugoslav who live outside the country keep some \$20bn or more in foreign banks, but half that much seems to be a more realistic figure.

These investors will be offered various options including investing in existing firms, funding their own businesses, buying apartments, or buying government bonds. Whether that will yield expected results remains to be seen.

Aleksandar Lobi

## Doing deals

ENERGOPROJEKT, the Belgrade-based consulting and contracting company, has been experimenting with countertrade in countries with payment difficulties. Other Yugoslav contractors may follow suit.

Energojekt is Yugoslavia's leading consultancy and contracting company. It accounts for 60 per cent of exports of consultancy and design services, and 15 per cent of aggregate contracting business abroad. Its exports have fallen to some \$200m-250m per year, from \$400m-500m in the early Eighties, when many less-developed countries had international funds at their disposal.

These have largely dried up and Energojekt faces stiff competition from developed countries whose companies can offer soft loans mixed with commercial loans, and can even finance local costs. This Energojekt cannot do its bank, and the Yugoslav Bank for International Eco-

nomic Cooperation have not enough resources for that type of financing.

So, Energojekt has turned to countertrade, taking payment in oil, raw and semi-processed materials and other goods either for the Yugoslav markets or re-exports. It takes Malaysian rubber, tin, palm oil and spices, Ugandan coffee and cotton, Arab oil, Peruvian fishmeal and iron ore.

Energojekt does not have its own trading company but uses the services of specialised Yugoslav trading companies. Similar arrangements are being made with the Soviet Union, where Energojekt has several projects.

Over the past 5 to 6 years, the company's deals have increased steadily and now account for 20 per cent of all business, the rest being financed by international financial institutions (15 per cent), Yugoslav banks (25 to 30 per cent), and Energojekt's own resources and investor's money.

Not surprisingly, Energojekt is lobbying for an international agreement to put all contractors in the same position as far as loan conditions are concerned. But no one is holding his breath.

A.L.

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**FINANCIAL TIMES**



## ARTS

## The Photographers' Gallery/William Packer

### Images to make a point

There is photography, and photography, which is the difference between the Photographers' Gallery and the Tate. Whatever else it did the invention of the camera, far from killing off painting and drawing as was first feared, served merely to put another useful tool into the artist's hand. Artists were quick on the uptake, and the subsequent history of photography is to be read as much by their response to it as by any technological advance.

The technicalities of the medium apart, photography is a discipline of the eye and, through the eye, of the mind. The photographer has only to fix upon and organise his material through the medium of his lens: the choice is entirely his, and if he is also an artist, he can achieve a work of art, whether for himself or a client.

Two exhibitions now at the Photographers' Gallery, at 5-8 Great Newport Street, W1C, address themselves to contemporary British work at each of these practical extremes. *Mysterious Coincidences*, in the Bill Brandt Room (until January 18), then on extensive international tour, sponsored by W. Hacking Enterprises of Hong Kong, is announced as an exhibition of New British Colour Photography. Certainly it is all these things, but it is as photography that it requires amplification beyond the "significant developments" suggested by the blurb.

Any such developments may be significant or not, but what is more interesting is that all this work is applied either to another beyond photography itself, into areas of more general

creative concern. These may be both practical and expressive, and here they range from the sculptural and the literal to literary, social and political comment. That any one of the nine contributions that comprise the show must then stand or fall on its own merits is neither here nor there.

By any technical measure the work is admirably sufficient, immaculately printed and presented - if at times a shade self-consciously so - with everything in hand to command the desired result. But it is at the level of overt comment that it shows itself at its weakest. For text and polemic too easily can be isolated, read for themselves, argued and laid aside to the fatal detriment of any formal integrity that the work itself may possess.

The more ironical, po-faced or oblique the better, and here Paul Graham's essay upon the present face of Northern Ireland, "A Troubled Land," is infinitely to be preferred to the portentous theatricals of Tabrizian and Golding in their large triptych "The Blues." The one simply gives us a disturbingly familiar landscape of country roads, distant hills and standard suburbs, with only the chance figure of a soldier, or the circumstantial detail of a poster or graffiti, disturbing its placidity. The other treats us to three beautifully contrived and potentially ambiguous encounters between individuals informed, unfortunately, by words that are false where they are not naive. "You are white because you are white," says one white figure to another, "another beyond photography itself, into areas of more general

"...still a head hangs neither in nor out," concludes another. "No look held their space together..." Their words fail them.

They are not alone, for Olivier Richon, having managed to reduce his surreal still lifes to a degree of neo-classical refinement that is both tantalising and intriguing, reduces them further into arch and obscure triviality by his chosen texts. The meaning, or rather the non-meaning, of images is what appears to concern him, for their very obliquity, we learn, is their point; but he rather spoils their joke by explaining it. His images are rich enough themselves to sustain interest.

The construction of a tableau, no matter how elaborate, which becomes in its photograph the residual work of art, is not the problem; and indeed some manifestly successful examples of this approach are included in this show. Tim Head's micro-landscapes, that might be surfaces of other planets, are as effective as they are witty - an exact relation for his "Toxic Lagoon," on which float such lurid, doubtful edifices, needs nothing more than its name to tell us so. His "Biological Landscape" is but a soap powder moonscape bestrewn with pills; his "Alien Landscape" only plastic wrapping and saucy crisps. Boyd Webb's more extravagantly cosmic and surreal confections have no names at all.

Keith Arnatt's sequence of intimate landscapes, "From Miss Grace's Lane," is also exemplary in allowing the particular image to do its own ironical point. A scrubby, dappled landscape of marsh, hedgerow, bank and



"from Miss Grace's Lane" by Keith Arnatt

undergrowth is picked out and given its scale by the miscellaneous rubbish it so curiously celebrates. A bright green can sits among the foglows on the clay slopes, a tyre floats in pool in a winter landscape for all the world like a Millais sunset, or "February Fill-Dyke" by Benjamin Leader.

Stages, the other current exhibition (in the Tom Hopkinson Room two doors away, until January 23), is by no means so ambitious in scope, yet it presents

the nicest complement. The work of seven advertising and commercial photographers, who presumably would follow Dr Johnson in never working but for money, shows clearly that such self-denial need not preclude true art.

The discipline is perhaps tighter, and there is always a brief and a text to work to, enlivening and informing with wit and imagination. Here we have high profile but often being established, variations worked, final superimpositions made and

we hope, clients satisfied. With the best of it, as with the best of any kind of applied photography, we discover work which needs no special plea. Divested of its immediate commercial context and rationale, it stands fully established and resolved on its own visual terms. Jess Koppel is a consummate photographer - that is to say an artist - of still life and Frank Henrich's work for Amico tiles has a formal authority that takes it far beyond any purely functional requirement.

## Die Gezeichneten/Duesseldorf

Andrew Clark

The problem with Franz Schreker is that his music offers far more glimpses of other composers' personalities than it does of his own. That is certainly true of *Die Gezeichneten* (The Branded), which the Deutsche Oper am Rhein has just treated to a brilliant staging in Duesseldorf. The material seems to consist of an endless and aimless stringing together of notes, its vapidity camouflaged by snatches of sweet melody and some very expert orchestration. But it is the lurid subject matter, as popular in the 1920s as it was despised by the Nazis, that provides such fascinating insight into artistic fashions of the day. Were Klempner, Bruno Walter and Erich Kleiber really taken in?

Today, Schreker's concoction of Freud and Wagner, legend and Symbolism, fairy tale naïveté and potboiling artistic drama is either anachronistic or unintelligible. Yet the Schreker revival continues. *Ihre Hohe, Das Spielzeug* and *Der Schindler von Ghent* have been staged in recent seasons, and *Die Gezeichneten* was heard in a concert performance at the 1984 Salzburg Festival. As Germany tries to reclaim the corners of its forgotten past, Schreker makes for a very plausible novelty, especially in a repertoire system that suffers from exhaustive repetition. All stage directors suffering from produceritis should opt on a strict diet of operas such as these.

The Duesseldorf production was a very good example of how to go about such a revival. Teasing the same path as in his staging of Korngold's *Die tote Stadt* last year, Gunter Kramer offered a radical re-interpretation - picking out references that correspond to Schreker's life and times, and animating the

drama with modern theatre techniques. The central figure of a young, sensitive and arrogant, was depicted as a hobbling fat German Jew, an outcast whose emotional and material good faith is heartlessly exploited by society (Schreker himself was half Jewish). Tamar and Count Adorno were a pair of libidinous Fascist guards, Carlotta a naïve and shallow artist in need of sexual liberation.

Xenia Hausner's decor made a feature of a stage-wide set of Venetian blinds, which gave both cast and audience various opportunities for voyeurism, while also providing a novel and very practical alternative to the drop curtain. Striking visual and dramatic contrasts were constantly being explored, but never to excess. In short, Kramer actually succeeded in making a visible evening's theatre from the work.

The large cast and chorus gave performances of admirable skill. The Tamar, Sigmund Cowan, had the looks and confidence of Klaus Maria Brandauer, with a vibrant baritone voice. The Alviano was William Cochran, who makes up in heidentone stammina for what he lacks in beauty of timbre. Carlotta was treated to a tough performance from Trudell Schmidt, vocally sumptuous and outstanding in depth and range of character. "Thanks to Schmidt and Cochran, the long duet at the end of Act one - in which Carlotta and Alviano discover their love but are unable to express it - emerged as a finely graded and involving scene in the evening. Crowning these achievements was the superb orchestral performance under Hans Wallat, who opened up the Mediterranean warmth of the score.

## Pinocchio/Watford Palace

Michael Coveney

The Adventures of Pinocchio is the daytime Christmas show at the Watford Palace, where *The Cat and the Canary* continues in the evenings. Adapted and staged by Lou Stein, it has some fine new music and lyrics by Monty Norman, composer of two remarkable British musicals of the late 1950s, *Expresso Bongo* and *Irma La Douce*.

If they seem a long time ago, Mr Norman has opened another couple of gaps since *Songbook* (1979), his and Julian More's witty and undervalued apperpet to the chin of compilation cabaret on the likes of Coward, Porter and Sondheim, and *Poppy* (1982), his pantomime with Peter Nichols on the Chinese opium wars. In short, it is good to have him back in business, and high time that his talents were recognised. His songs are simple but not saccharine, charming but not childish. They fit the story well, and of course it is a very good story. Mr Stein faithfully follows Carlo Collodi's book, rather than

the Disney film. One senses fidelity has gone too far in the first half, with sequences in Gepetto's cottage and the Red Crab Inn that border on the tedious. But the encounters with the puppet show, the assassins, the fox and the cat and the shark (christened Atila) are all well done. The story line is shared between a vaguely dotty Blue Fairy (Cheryl Kennedy) and Pinocchio himself, who slips readily into third person narrator even while tumbling through the rippling blue silk ocean manipulated by two crouching downstage water sprites (the oldest scenic tricks are often the best).

At my morning matinee, Pinocchio was energetically played and powerfully sung by Damien Walker (he shares the role with Grant Gidding). "The long-winded half-mad" is no barrier to us understanding the momentous decisions he takes when faced with temptation. He climbs on the carriage to Playland and befriends Lampwick (Joe Geary).

Their Bottom-like transformation to donkeys is the subject of a punchy duet, "Oh Hee-Haw."

This last quarter of the show is particularly strong, with an affecting death scene for Lampwick and a reunion with Gepetto (Ric Morgan, who doubles neatly as the swanky fox) in a gaping red silk shark's throat. The puppet's graduation to full humanity is signalled in "In a Boy," a foot-stomping classic finale. The designs by Norman Coates are most successful when they escape one-dimensional interiors. The field of miracles, for instance, where Pinocchio foolishly plants his money, is a simple vista with a standing row of yellow corn. The musical direction by Stewart Mackintosh, leading a five-piece band, is sensitively expert.

Townpeople, guards and talkative tunes are all played by a gaggle of eager schoolchildren, professionally reinforced in the higher ranks by the dapper Ashley Knight and the literally gigantic Colin Fay.

## Aladdin/Richmond Theatre

Claire Arncliffe

There is something faintly unnerving about finding oneself sitting in a commercial pantomime surrounded on all sides by Samaritans, perhaps because it doesn't happen every day. The good people of Putney and Richmond, accompanied by no less a person than Chad Varah, poured into the beautiful Richmond Theatre by the chancery road for the last evening of *Aladdin*, and the good people of Putney and Richmond, accompanied by no less a person than Chad Varah, poured into the beautiful Richmond Theatre by the chancery road for the last evening of *Aladdin*, and the good people of Putney and Richmond, accompanied by no less a person than Chad Varah, poured into the beautiful Richmond Theatre by the chancery road for the last evening of *Aladdin*.

The result was a house slow to warm to an entertainment slow to pull its best acts out of the party hat: a warbling duet by Anita Dolson and Janet Ellis of the inevitable EastEnders spin-off "Anyone can fall in love" seemed a desperation measure after a joke about Neil Kinnock winning the next election died an ignominious death, despite the best efforts of David Morton's expansively up-front Widow Twankey to revive it.

It took the second act to justify Dobson's billing as anything more than a pretty face. When she found her husband's striding over the Atlantic as soon as she opened her mouth to sing, the Albert Square gang would be amazed.

The perils of slotting any old celebrity into pantomime were in evidence in Janet Ellis's stodgy princess, who seemed to have mistaken white China for EastEnders. The Chinese policeman, played by former Olympic swimmer Duncan Goodhew, was one half of the obligatory comic duo. Despite a pate that

seemed to become more shiny with every thump administered to it, Goodhew's timing is not sharp, nor his technique advanced, enough to take his share of the comedy from the shoulders of his overworked partner Simon Groom.

If it is the big names who bring the crowds in, it is the seasoned trouper who carry the show - notably Anna Dawson's scrumptious genie, an Abanazer from Gareth Marks who rears to life like a dancing bearskin hunting trophy, and an Emperor from John Boulter who has clearly invested an imperial mint in singing lessons. The speciality act of Du-Marte et Denzar's dancing skeletons made a welcome relief from the mini-kimono'd go-go girls of Pakin market in a show directed and choreographed by Roger Hannah, which doubtless sent the Samaritans and their samaritanesses home with several TV theme tunes on the brain.

Caroline Mander is the Beauty, who dutifully pricks her finger on the spinning wheel. The fairies are called Fairy Cake, Fairy Liquid, Fairy Lights and Fairy Snow, but the most individual of them is Fairy, not Fairy, Naff, because she is still a learner, and wears an L to show it. She gives a happy comic performance and deserves her ultimate alliance with her mate Simple Simon (Paul Milton, who is also choreographer, and does rather well). The decor is unambitious, there are no grand transformation scenes, but the stage is always a pleasure to see when it should be, and coldly uncharming when, in the future, it presents Miss Shape's Gym.

Full marks to the Everyman for novelty.

## Sleeping Beauty/Everyman, Cheltenham

B.A. Young

In one way at least this is a very unusual pantomime. A new book and lyrics have been written by the director, John Doyle, who is the theatre's artistic director, and the music is also new, specially commissioned from Catherine Jayne. One in a thousand feature has been retained: there are endless chances for the children to shout, and on the night of my visit they shouted like football fans, only more inventive.

The story is dramatically a teaser. If you stick even approximately to the accepted story, your heroine is asleep most of the time. Mr Doyle has an easy way out. His first scene begins with the descent of a UFO into the King's courtyard (designer, Chris Crosswell). From the UFO steps a Prince (Robert Beach, a male prince, another novelty), and he has a portable time-ma-

chine so Mr Doyle can bring the vital kiss forward to end his first act, and set his second act in some vague future, where there are no references to TV commercials, and only one to a politician, and this only dragged in for a rhyme, a false rhyme at that.

As I wrote about another show, acting is not very important in pantomime, and there are no Gongs or Ashcrofts here. Establish who you are, make sure your jokes are heard, be pretty if you are a girl or a young man or funny if you are anything else, and there you have it, and there they have it at the Everyman stage, a minor exception. The witch (Colin Wakefield), named here Fairy Nasty, is so keenly greeted with boos and hisses that her voice, produced through an echo, is not easy to hear. There was never

any question about her motives, though.

Caroline Mander is the Beauty, who dutifully pricks her finger on the spinning wheel. The fairies are called Fairy Cake, Fairy Liquid, Fairy Lights and Fairy Snow, but the most individual of them is Fairy, not Fairy, Naff, because she is still a learner, and wears an L to show it. She gives a happy comic performance and deserves her ultimate alliance with her mate Simple Simon (Paul Milton, who is also choreographer, and does rather well). The decor is unambitious, there are no grand transformation scenes, but the stage is always a pleasure to see when it should be, and coldly uncharming when, in the future, it presents Miss Shape's Gym.

Full marks to the Everyman for novelty.

## Philharmonia/Festival Hall

Andrew Clements

Something traumatic appears to have overtaken the Philharmonia Orchestra. It is not for me to speculate on what that misfortune might have been, but on the evidence of Friday's concert of Schumann, conducted by Carlo Maria Giulini, the orchestra is in a state of depression, and the year is depressingly low ebb. All the qualities which go to make up a first-class orchestra (and which this one continued to display until very recently) have evaporated. Ensemble is ragged, intonation uncertain, balance and tone uneven. It would have been impossible to recognise Friday's performance as coming from the same source as those produced barely a year ago for conductors such as Haitink and Rattle.

The current limitations were painfully exposed in the *Manfred* Overture. Giulini's approach is by no means theatrical but languorous and perhaps potentially seductive, and predicated above all on a string section that can sustain a phrase and simulate a decent cantabile; the Philharmonia at present seems capable of neither. Every exposed melodic line or chord became a potential pitfall, and few of them were negotiated with conviction. Giulini offered little in the way of positive direction and the lack of impulsion and steadiness was carried over into the accompaniment to the Piano Concerto. Radu Lupu is incapable of presenting the solo part without sensitivity, but even he seemed reduced to routine in these circumstances. There was a minimum of sparkle, less sense of involvement. The standard of orchestral playing picked up somewhat after the interval, but whatever had been redeemed by a buoyant sense of rhythm in the symphony was denied in the opening moments of the work. Giulini launched it as if nudging some vast Brucknerian edifice into motion, instead of springing one of the most exhilarating of symphonies into being. Over-deliberation with further broadening for the second subject - cost more than physical impact: the movement's connective tissue was absurdly emphasised, the subsidiary detail undisturbed, and the symphony disintegrated into a sequence of unconnected moments. Only the second slow movement was matched to the grandiloquence of Giulini's approach; lacking altogether any sense of rhythmic imagination, the symphony turned into a very dogged experience indeed.

## BBC Symphony/Albert Hall

David Murray

When Andrew Davis is conducting with his customary keenness and terpsichorean enthusiasm, complaints seem hard. Luckily there were no very grave ones to make on Sunday, though his Technicolor programme with the BBC Symphony Orchestra, Ravel and Respighi - had no outstanding merits either. Of Debussy's three *Nocturnes*, "Nuages" was cool and careful (or perhaps just literal-minded: couldn't he see) the BBC's mellifluous, casual about small niceties.

There are no niceties in Respighi's *Finesse of Rome*, but the Villa Borghese movement had real verve, and the recorded righting of the BBC's march-finale made an enormous

noise: even on very old 78s one used to hear more brightening detail. In any case Respighi's monster crescendo is not flattered by proximity to the infinitely cleverer *Fates*. Ravel's *Daphnis et Chloe* was a curate's egg with the courage of its dubious convictions. Davis made it so effective as a dance piece - a side of it often lost in would-be searching performances that his own podium was a masterpiece of understatement. There was grace and feeling in both the solo numbers for the lovers, and the whole pirate tableau was excitingly driven forward. Elsewhere, hyper-speedy BBC tempi often left his players able to do no more than snatch at the notes (not only in the "Danse generale," but even in the flute "Pantomime" and the daybreak scene). The BBC first-deck playing was strangely variable, from impeccably sensitive to stiff and downright inept.

## Suzanne Vega/Hammersmith

Antony Thornecroft

Suzanne Vega has been on the road for eight months and on the eve of her departure home to New York she has yet another Hammersmith Odeon date. What a change since her last appearance there in the spring. Then she seemed a lonely, vulnerable figure, peeping out nervously from behind a guitar. Now she is an up front madam, dressed by Vogue and backed by a rock band.

Yet the atmosphere is very similar. Audience reverential; singer whimsical, yet oddly secure; songs, well, the same bunch of lumpy, veering towards the limp, reflections of growing up in New York, back bedroom images of boys and chameleons, and ideas that she doubles shares with millions of nice middle class girls.

It is almost voyeuristic observing Suzanne Vega's mosaic, delivered in a soft meamorphic voice, backed by similarly hypnotic tunes that hardly stretch her guitarist fingers but build up an intensity redolent of an

Indian raga or an African drum. She opened unaccompanied with "Tom's Diner," as her quavery voice took off the raucous audience, still drifting in from the bar, fell silent, as if in the presence of death. Then on with the guitar and into her small repertoire, with the obligatory solo spot which she must be admitted, you hardly noticed the loss of the band.

Sometimes her gushing naturalness leads her into tedious introductions of songs which hardly justify a word of explanation, but then she pulls herself together and throws off a tangibly like "Luka" or the kind of nostalgic love song like "Gypsy" which not even Joni Mitchell could better. Suzanne Vega hits a chord which has not really been touched since seventies singers as Mitchell, Janis Ian, Melanie, etc were all the rage, yet with songs like "Marlene on the wall," held back for the encore, she somehow manages to escape from the embroidered smock image into high art.

## Arts Guide

### Opera and Ballet

#### LONDON

Royal Opera (Covent Garden). The company's new season show is a revival of *L'elisir d'Amore*, with Yvonne Kenny, Denes Gulyas, Enzo Dara and Gino Quilico, conductor Gabriele Ferro.

English National Opera (Coliseum). The much-awaited production by David Pountney of Humperdinck's *Hansel and Gretel* is conducted by Mark Elder. Ethna Robinson and Cathryn Fope take the title roles, with Norman Bailey as father and Felicity Palmer doubling as mother and witch. The most important saving grace of the limp, unfunny new production of the Barber of Seville by Jonathan Miller is the Rosina of Della Jones, a

classic impersonation sung with formidable Romanian virtuosity.

#### PARIS

Lyons Opera Ballet and Maguy Marin's company (Theatre de la Ville). The Seven Deadly Sins in Berthold Brecht's and Kurt Weill's *Black Universe Searching for Peace*. (42 74 22 77).

Radolf Nureyev's production of Tchaikovsky's *Nutcracker* (Paris Opera). The choreography reveals childhood's fantasies as well as fears beneath the usually sugar-coated fairy tale. Monique Loideres, Claude de Vulpian, Elisabeth Maurin, Fabienne Cerutti alternate as Clara, while Charles Jude, Rudolf Nureyev, Jean-Yves Lormeau and Laurent Hilaire dance in turn in

the role of Drosselmeyer. (47 42 57 50).

#### WEST GERMANY

Berlin (Deutsche Oper). Der Freischuetz, produced by Johannes Schaal, will have its premiere this week. The cast includes Stella Kleindienst, Daniela Beckly, Rene Kollo and Hartmut Welker. Hansel und Gretel has fine interpretations by Janis Martin, Barbara Scherler and Schwanensee, choreographed by Kenneth MacMillan round off the week.

Hamburg (Staatsoper). La Cenerentola has a strong cast with Judith Beckmann, Hildegarde Hartwig, Werner Hollweg and Harald Stamm. Also a Harald Stamm lieder recital, accompanied at the piano by Wilhelm von Grunelius with songs by Schumann, Schubert, Ibert and Liszt. Daphnis und

Cloe/Der Feuerfuegel are: Heidi Schaal, Hildegarde Hartwig, Daniela Beckly, Rene Kollo and Hartmut Welker. Hansel und Gretel has fine interpretations by Janis Martin, Barbara Scherler and Schwanensee, choreographed by Kenneth MacMillan round off the week.

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Giorgio Strehler, performed in the semi-darkness of East Frisia's festival seats. Riccardo Muti conducts a fine cast, led by English baritone Thomas Allen (alternating with Jose van Dam), Edita Gruberova (alternating with Cheryl Sola), Anna Maria Rinaldi, Mentez, Claudio Desderi and Natalie de Carolis. Rudolf Nureyev's *Nutcracker* with scenery and costumes by Nicholas Georgiadis, with Anita Magary and Charles Jude. (30 91 26).

Bonn (Theatre dell'Opera). Faust directed by Luca Ronconi and conducted by Gianfranco Masini with scenery and costumes by Pierluigi Pizzi with Ruggero Raimondi, Carol Vane and Jean Dupuy. Also Alicia Alonso's Ballet Nacional de Cuba. (46 17 55).

Torino (Teatro Regio). Quartetto con Maschera Rossa. A new ballet by Jean-Luc Lequey, with scenery and costumes by Eugenio Guglielminetti, danced by the Regio Company, with five guest performers. Don Giovanni, with Renato Bruson singing the title role (his first performance of a Mozart role in Italy). Daniela Dessi as Donna Elvira, Eugenia Moldovanu as Donna Anna, and Stafford Dean as Leporello. (58 80 00).

Bologna (Teatro Comunale). Faust in co-production with the Teatro de la Monnaie in Brussels, conducted by Riccardo Chailly and directed by Luis Pasqual. The cast includes Paolo Coni, Juan

Pons, Martha Senn, Daniela Dessi, Mariella Devia and Carmen Gonzalez. (52 99 99).

#### NEW YORK

Metropolitan Opera (Opera House). Les Contes d'Hoffman, in Otto Schenk's production conducted by Charles Dunlop, features Geraldine Farrley, Roberto Alexander, Neil Schickoff and James Morris. Manuel Rosenthal conducts Die Fledermaus in Otto Schenk's production, with Barbara Daniels, Judith Hagen, Tulliana Troyanov and David Rendall. Fabrizio Mancini's new production of *Il Trovatore* is conducted by Richard Bonynge, with Joan Sutherland, Fiorenza Cossotto and Luciano Pavarotti; Franco Zeffirelli's production of *Tosca* is conducted by Christian Bada with Eva Marton, Sherill Milnes and Italo Tajó. Lincoln Center (362 6000).

New York City Ballet (New York State Theatre). Nikolski and Louis. Two choreographers with their own companies, Alvin Nikolski and Murray Louis, team up for a five-week season featuring seven programmes, including a number of premieres. Ends Jan 17.

#### WASHINGTON

Washington Opera (Eisenhower). The season continues with the little performed *L'A-mico Fritz* by Mascagni in repertoire with Ruggiero. Kennedy Center (254 3670).

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Tuesday December 22, 1987

## Brazil's lost credibility

ONE should spare a thought this Christmas for the Finance Ministers of the Third World debtors. The difficulties of trying to serve two masters - satisfy the international financial community and accommodate the domestic governments and parties - has been underlined yet again by the case of Brazil.

Mr. Luiz Carlos Bresser Pereira, the Brazilian Finance Minister, resigned last week when it became clear that his proposals to raise taxes and cut public spending would be watered down so drastically as to be a self-defeating exercise in the fight against inflation. Resignation was the only honourable route left open after President Sarney had diluted every single initiative since he took the job in April.

Yet if Mr. Bresser's plight deserves a measure of sympathy, his departure is disturbing. President Sarney has now used up three Finance Ministers in under three years and exhausted all credibility as a responsible leader in economic matters. He has consistently promised to cut public sector expenditure but has proved both unwilling and unable to contain its growth. In so doing he has exacerbated a chronic problem that is perhaps more pernicious in the long term than Brazil's foreign debt - the burgeoning state deficit.

Mr. Bresser offered at least the hope of better relations with Brazil's international creditors and a return to sounder financial discipline. He was largely responsible for renewing a dialogue with the commercial banks after interest on medium and long term debt was suspended in February, and despite considerable handicaps was trying to rein in President Sarney's use of the state budget as a means of political patronage. Of equal importance, in his now aborted plans, he was proposing to make a much needed readjustment of the tax system so that the rich shoulder more of the burden in one of the developing countries with the greatest inequalities of income.

The political calendar in Brazil is such that direct elections to the presidency will probably be held in November 1988, although President Sarney himself is doing his best to prolong his not-elected tenure. Increasingly viewed within Brazil as a lame duck, it is going to be hard for him to persuade anyone with authority to assume the Finance portfolio, or indeed for President Sarney to retain the backing of the PMDB, the largest political party, which obliged him to appoint Mr. Bresser in the first place.

## Sick giant

Brazil has become the sick giant of the continent, squandering its potential and alienating friends and admirers, who have been willing to make allowances for the constitutional and institutional vacuum created by the transition in 1985 from military to civilian rule. Of course, President Sarney is operating under considerable political constraints. He has to accommodate the political interests of the various state governments, the business community and the military, and he has to placate the vast mass of Brazil's underprivileged society at a time of recession. But these are not constraints exclusive to Brazil; nor is the phenomenon of a large public sector deficit, a protected economy and high inflation. In varying degrees the situation is similar among most of the Latin debtors.

Until now all the advice offered to Brazil has amounted to whistling in the wind. In any case, foreigners have little leverage, since Brazil has already made the external adjustment to the disappearance of the capital inflow. The Brazilian sickness is manifestly internal. The disappearance of three finance ministers in succession shows that the measures known to be essential to any competent official are outside the realm of practical politics. So long as the condition persists, the rest of the world can only wait and hope.

## The polarisation of Belgium

BELGIUM is spending Christmas under a caretaker government, and with no quick solution to its political crisis in sight. The general election on December 13, held two years early in an attempt to resolve the latest episode of the endless linguistic quarrel, not only failed to do that but has made it extremely difficult for the outgoing centre-right coalition led by Mr. Wilfried Martens to remain in office.

That is a pity, because since 1981 the Martens government had made a promising start in tackling Belgium's formidable economic problems. It had turned the balance of payments round and brought inflation down from 8.4 to 1.3 per cent. The budget deficit had been reduced from 12 per cent to around 8 per cent of GNP. Unemployment, still at 12 per cent, had at least begun to fall, while profitability in the private sector had recovered remarkably and manufacturing investment had picked up.

Such things are never achieved without pain. Belgium has endured five years of austerity, and in the short term Mr. Martens could only offer more of the same. At first sight the election results, in which his party lost six seats and the opposition Socialists gained five, suggest that the Belgian people lack the stomach for it and have opted to revert to the fallacious remedies of the past.

## Declining industries

Things are not so simple. Mr. Martens's party is Flemish, and lost seats in Flanders: not to the Socialists but to other parties, most notably the Liberal party of his own budget minister, Mr. Guy Verhofstadt, who is a younger and much more enthusiastic proponent of free-market policies than Mr. Martens himself. Thus the Flemish, who are the larger and more prosperous part of the population, can hardly be said to have voted for a return to interventionist policies.

The Socialist party which won seats was the French-speaking one, campaigning in the other half of the country where most of its obsolete or declining industries are to be found. Moreover, the emphasis

in its campaign was much less on the economic issue than the linguistic one it cashed in on the fame of Mr. Jose Hapart, the French-speaking Socialist mayor whose refusal to take a statutory exam in Dutch provoked the crisis.

It is rather as if Belgium were a microcosm of Britain stood on its head, with a prosperous north embracing Thatcherism, and a depressed and resentful south; but polarised to a much greater degree because the two halves of the country speak different languages.

The resentment of the south is sharpened by the fact that its language (French) is one of international renown, traditionally associated with high culture, and was in the past that of the court and the ruling class, while that of the north (Dutch) is spoken only by a few million people and in Belgium not so long ago was considered essentially a peasant or plebeian dialect.

The prosperous Flemish cannot be expected to feel much sympathy with such feelings, but they can perhaps afford to be tolerant of them, given their new-found economic strength. It is encouraging that the election result on their side appears to reflect more interest in economic and ecological issues than in the linguistic one.

Of course some Flemings will be tempted to reply to the French-speakers' idolisation of Mr. Hapart by inviting them to fend for themselves. But probably not many will do so, since they would actually be better off if the country broke up. The divorce would inevitably be long-drawn-out, messy and acrimonious, and would have considerable economic as well as social costs.

Some people on both sides of the linguistic divide like to argue that they would be better off as separate regions within a more closely integrated European Community. But the Community itself resembles Belgium in being based on the assertion of a common identity uniting peoples of different language. The break-up of Belgium would hardly be a good omen for the future of Europe.

Michael Prowse examines the problems involved in reforming Britain's health service financing

## A cure more costly than the disease

IN APRIL, 1946, the House of Commons enthusiastically backed Aneurin Bevan's vision of a National Health Service for Britain. In the post-war climate of fraternity and optimism, it seemed eminently reasonable that every citizen, rich or poor, should have equal access to (in Sir William Beveridge's words) "whatever medical treatment he requires, in whatever form he requires, domiciliary or institutional, general, specialist or consultant."

At a time when great swathes of the economy were being nationalised, it also seemed natural to realise this ideal in the shape of a collectively financed public service offering treatment free at the point of delivery.

Four decades later, the NHS appears to be in crisis. A barrage of complaints about inadequate hospital services has forced the Government to concede an emergency cash injection of \$100m for 1987/88. The money is being used against the better instincts of ministers, who keep reiterating how fast NHS expenditure is rising in real terms. In addition to extra cash, the Government has begun a far-reaching review of NHS funding and operations, and promises a 'summit' with leading doctors 'early in the new year'.

The 'crisis' has provoked two opposite reactions. At one extreme, a set of gloomy critics maintains that the NHS is facing an 'impossible task'. The demand for health care provided free at the point of delivery is necessarily limitless. Therefore, apparent shortages will prevail however much money is allocated to the NHS. What people must accept is that Bevan's concept was fatally flawed. A comprehensive tax-financed service is no longer a workable proposition. Charges for services (for example, hospital stays) must be introduced and the private sector must be encouraged to shoulder more of the burden, even if this means abandoning in practice the cherished ideal of equal access to health care.

At the other extreme, experts argue that much of this critique is based on a false premise. The NHS is not a welfare state; it is a business. Calculating that, allowing for special factors such as demography and technology and including the benefits of cost-improvement programmes, it has experienced a real cut in resources of some 9% per cent in the past five years. It has suffered not just from the national policy of switching resources from hospitals to the primary care provided by GPs,

but also from a drive to reduce regional inequalities. Few query the validity of the boost for primary health care and the poorer regions, they merely point out that it inevitably imposes extra strains when the overall health budget is so tightly controlled. The acute care facilities within hospitals have faced a further squeeze from the, again sensible, decision to divert resources towards the 'Cinderella' services - for example geriatrics and care for the mentally ill.

There is obviously a germ of truth in the argument that increased resources will not solve the crisis because health care demands are infinite. But it is worth noting that many of the unmet demands today are not for exotic treatments but for routine services like dialysis for kidney patients. Moreover, as income and wealth rises, it is perfectly reasonable for people to expect a better standard of health care. Why should people wait months for plastic hip joints when video cameras and Spanish holidays are in ready supply?

## Why should people wait months for plastic hips when video cameras and Spanish holidays are in ready supply?

Perhaps surprisingly, most experts still believe that a tax-financed public health system is the 'best buy' available. As Dr Julian Le Grand, an economist at the London School of Economics specialising in social issues, says: 'All systems of health care are bad, but the NHS is the least bad.' He points out that in recent years a steady stream of right-wing US economists has arrived in Britain to examine the NHS; the would-be critics have gone away singing its praises. They can see at a glance its advantages over a US regime that is inordinately wasteful of resources and yet leaves 30m poor Americans without any cover at all.

Ironically, at a time when the principles underlying the NHS are being scrutinised by the Thatcher Government, other countries are increasingly recognising the merits of the UK approach. Mr Nick Bosanquet of the Centre for Health Economics at York University points out that many countries have grafted tax-financed public services on to their insurance-based systems. In southern Europe in particular, moves towards equal

access, free at the point of delivery services are underway. A tax-financed state service offers a range of diverse advantages. In the first place, it is remarkably cost effective. As a bulk buyer of drugs and a huge employer, the NHS has managed to keep much better control of medical costs than regimes in other countries. Doctors' incomes, for example, are only two-and-a-half times average earnings compared with five times in the US and West Germany.

Funding through taxation is also much more efficient than relying on insurance, whether public or private. A recent OECD study showed that far less of the NHS's annual budget was swallowed up in administrative costs than was the case in insurance-based systems abroad: it costs a lot to bill millions of people separately for their health care. 'The bureaucracy of insurance is quite inescapable,' says Mr David Kenny, the general manager of North West Thames Health Authority. 'What political philosophy,' he asks, 'would back less value for money?'

But the NHS does not just have a cost advantage. Medical treatments are not like vegetables or clothes that you can buy in the supermarket. The patient is in no position to judge what kind of health care he requires. In private systems, where doctors are paid a fee for services rendered, there is an incentive to provide expensive and unnecessary treatments. In the NHS, by contrast, doctors get salaries and are less likely to allow financial priorities to cloud their medical judgment.

tee in Warsaw last week that ideologically things happening outside the party were more interesting than inside. His words were no sooner out of his mouth than a press conference just across the Vistula river had proved just how right he was.

There a handful of young people in their twenties have told western journalists about a 'movement for real politics', which they have founded.

Wearing clothes the Spectator magazine's young fogies would no doubt approve of (infiltration by plain clothes police is difficult as the movement tends to sport comfortable tweeds in the English country style), and surrounded by a coterie of postcard portraits crammed together on the walls of a small private flat, they explain that their movement is designed to encourage conservative endeavour of every hue and complexion. Yes, this is modern Poland.

The new activists include liberals, nationalists and conservatives, as well as one monarchist - who declared that Poland is in such a mess that this is not the time to get into disputes over who he has in mind for the throne.

The Polish economy would, of course, be privatised, and the judiciary made independent, and powers divided between the executive and the legislature. Universities, in the group's view, should be given full autonomy and, best of all, privatised.

The same goes for schools. Family values would have to be restored, including a dominant role for the head of the family, the group's statement insists.

**Sound the alarm**  
Instructions with a Hong Kong-made alarm clock on sale in London.

'To set alarm hand set alarm hand to time desired to wake. To change time desired to wake reset alarm hand to time desired to wake chosen.'

**King-sized**  
Mieczyslaw Rakowski, the newly-drafted Polish politician, member, and one-time liberal editor of the party weekly *Polityka*, told the central commit-

Country	Spending (1984)	Public health % of total health	Total health % of GDP
Sweden	91.4	9.4	
UK	88.9	5.9	
Italy	84.1	7.2	
West Germany	78.2	8.1	
France	71.2	9.1	
Japan	72.1	6.6	
US	41.4	10.7	

Source: OECD

1981-86 (%)	
Overall increase in spending	34.0
Inflation (NHS not GDP)	30.8
Change after inflation	3.1
Add: cash releasing cost improvement programmes (CIPs)	2.3
Change after CIPs	5.4
Costs of demography, medical advance & national priorities	-9.2
Net change	-2.8
<b>North West Thames</b>	
Less: differences in national & NW Thames 'real growth'	-5.5
NW Thames change before CIPs	-8.3
Add: higher cash CIPs achieved/planned in NW Thames	1.4
Net change	-6.9

Source: NW Thames Health Authority

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Insurance systems also have a strong incentive to be selective. They will be more profitable if they can sign up healthy young adults in the upper tax brackets and ignore the poor, the old and the chronically sick. They square up only imperfectly to a central problem of health care: the fact that those most in need of expensive treatment are often those least able to afford it.

Even staunch free market economists, such as Professor George Teeling-Smith at the Office of Health Economics, accept that private health care is going to remain peripheral in the UK for the indefinite future. He forecasts a doubling of expenditure on health relative to GDP over the next 30 years but sees only 10-15 per cent of the enlarged market going to the private sector. Mr Bosanquet points out that the private sector has had financial problems in recent years and offers only a patchy service: 'It is mainly talk and little action.'

Dr Le Grand at the LSE argues that any attempt by the Government substantially to boost private health in the UK would contravene the economic rationality. If the private sector began to flourish (it is currently in the doldrums with much unused capacity), its costs would escalate, as they briefly did in 1979/81. Soaring salaries in the private sector would inevitably put pressure on NHS costs as health authority managers sought to hold on to key staff.

A shift towards private provision seems unlikely to solve Britain's health problems. It would increase neither equity nor cost-efficiency. But there is still plenty the Government

can do to improve the NHS, besides pumping in more money. The quality of management remains low and work practices could be rationalised.

Mr Kenny at North Thames is unusual in putting all newly appointed consultants through a management training course. He regrets that he lacks the resources to extend training to senior registrars. 'The more we do,' he says, 'the clearer it becomes that we've hardly scratched the surface.' He accepts that a minority of consultants do not pull their weight and, in principle, supports the concept of fixed-term contracts for senior staff. But he clearly does not regard restrictive practices of consultants as a major area for cost-saving in the NHS.

Moves toward the 'internal market' recommended two years ago by Professor Alain Enthoven, the Californian health economist, might prove a more fruitful source of efficiency gains. The idea is that district health authorities should buy and sell services from each other and thereby derive some of the traditional economic gains from trade and specialisation. Patients would continue to get services free of charge, but from the hospital that could do their particular operation most efficiently.

A state health service offering services free at the point of delivery may look anachronistic in the 1980s, when privatisation and free markets are all the rage. By international standards, however, the NHS offers a comprehensive, fair and economical service. The danger in radically reforming UK health care is that the supposed cure could prove far worse - than the present disease.

## Uneasy season in Bethlehem

The slogan daubed on the ancient stone wall, not far from Bethlehem's Manger Square, is simple and to the point. 'No celebrations this year! Mark Christmas with prayer alone.'

Amid the worst disturbances in the Israeli-occupied territories for many years, and as last-minute preparations are made for Thursday night's traditional celebrations, the mood in Jesus Christ's birthplace has rarely been so grim.

Bethlehem may have largely escaped the latest whirlwind of protest and violence. But such is the common feeling among Palestinians, of all ages and denominations, that Christians and Muslims alike are seething inwardly with anger at the way the Israeli army has been behaving in recent days.

As it happens, a subtle social revolution is also taking place virtually unnoticed in perhaps the most celebrated town in Christendom. Bethlehem is becoming Muslim. And not just meek-and-mild, turn-the-other-cheek Muslim either, but the militantly fundamentalist brand.

The headscarves worn by an increasing number of young girls, and the beards their menfolk are growing, are the visible evidence of a change that has even produced a Muslim student majority at the Vatican-financed Catholic university.

A giant silhouette of Santa Claus in light bulbs has been erected on the famous hilltop skyline, to greet the expected horde of tourists and pilgrims. It strikes a discordant note given the circumstances - one which will only serve to remind many visitors that commercialism has long since replaced the humility of the original message from the City of David nearly two millennia ago.

Meanwhile, in the grotto of the fourth century Church of the Nativity, with its time-stained walls, there is an air of

## Men and Matters

quiet reverence in marked contrast to the volatile atmosphere in the town around.

The often warring priests of all the competing branches of Christianity are, at least for the few days to come, at peace with one another.

## Battle-hardened

Sir John Collyer, chairman of electrical accessories company MK Electric, is acquiring an unrivalled knowledge of takeover battles.

For the past three weeks the company has been stalked by rival bids and now looks certain to become part of RTZ, the mining and chemicals group.

For Collyer they bore a certain similarity to a still more protracted episode last year when AE, the car components group of which he was then chairman, was taken over after a particularly bitter struggle.

In the case of the bid from RTZ, a company which the board of MK originally spurned when it made its first approach last month, the board has in the past few days changed its mind following a revised offer.

Despite this new acceptance of having RTZ as a parent, Collyer says he would be 'a bit sad' to see the takeover go through. He says he thinks MK, where he has been chairman for just six months, has done a good job at building up its business independently - and that the acquisition might prove discouraging for other companies which wanted to follow a similar route.

Even if his interest in electric switches remains short-lived - it is thought unlikely that he will stay on as MK chairman - the former AE supremo will have plenty to occupy him. He will continue to serve both as chairman of United Machinery, a maker of shoe-manufacturing equipment, and also of a department

## Snow sense

At this time of year, Chicago is being itself for a dose of the infamous Midwest winter.

As the Christmas trees have appeared in public squares, so have the chains staked around the Sears Tower to hold as you round the corner into gale-force winds. But in anticipation of a winter even harsher than usual - in a city that advertises itself on postcards as 'colder than you'll ever imagine, USA' - doctors have warned that shovelling snow can be a health hazard.

After 19 people died in last week's sudden storm, which dumped up to a foot of snow in winds of 60 miles an hour, doctors have warned older or usually inactive people from attempting to shovel up snow in their drives and pathways.

Last week's snow was wet and heavy and the cause of many heart attacks, they say. Dozens of fingers were also lost in operating snow-blower devices that clear a path with less effort. And the ice has taken its usual toll of broken bones.

The snow-clearing warning means a dilemma for many older people - whether to risk a heart attack to clear the snow, or a broken neck by slipping when it freezes.

**King-sized**  
Mieczyslaw Rakowski, the newly-drafted Polish politician, member, and one-time liberal editor of the party weekly *Polityka*, told the central commit-

## Sound the alarm

Instructions with a Hong Kong-made alarm clock on sale in London.

'To set alarm hand set alarm hand to time desired to wake. To change time desired to wake reset alarm hand to time desired to wake chosen.'

**King-sized**  
Mieczyslaw Rakowski, the newly-drafted Polish politician, member, and one-time liberal editor of the party weekly *Polityka*, told the central commit-

tee in Warsaw last week that ideologically things happening outside the party were more interesting than inside. His words were no sooner out of his mouth than a press conference just across the Vistula river had proved just how right he was.

There a handful of young people in their twenties have told western journalists about a 'movement for real politics', which they have founded.

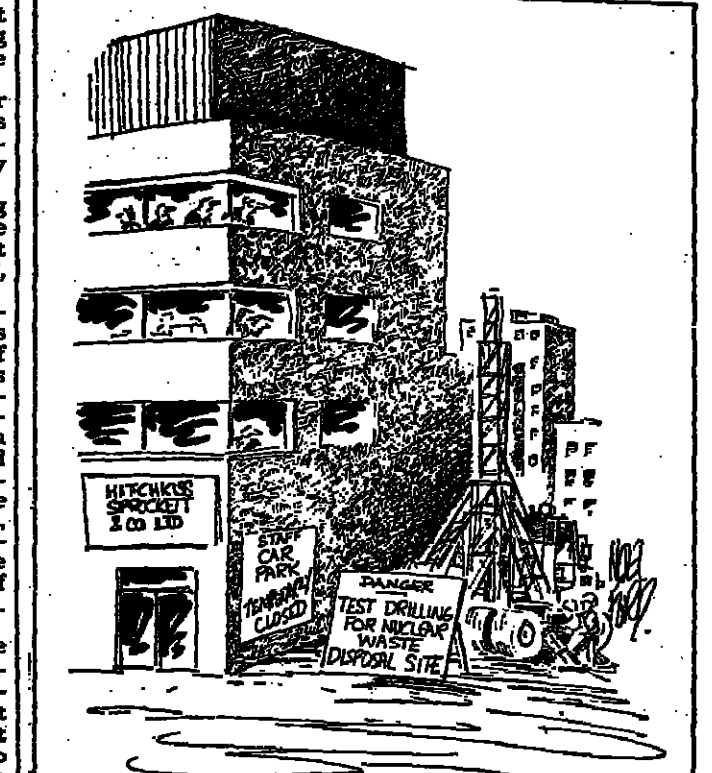
Wearing clothes the Spectator magazine's young fogies would no doubt approve of (infiltration by plain clothes police is difficult as the movement tends to sport comfortable tweeds in the English country style), and surrounded by a coterie of postcard portraits crammed together on the walls of a small private flat, they explain that their movement is designed to encourage conservative endeavour of every hue and complexion. Yes, this is modern Poland.

The new activists include liberals, nationalists and conservatives, as well as one monarchist - who declared that Poland is in such a mess that this is not the time to get into disputes over who he has in mind for the throne.

The Polish economy would, of course, be privatised, and the judiciary made independent, and powers divided between the executive and the legislature. Universities, in the group's view, should be given full autonomy and, best of all, privatised.

The same goes for schools. Family values would have to be restored, including a dominant role for the head of the family, the group's statement insists.

**Sound the alarm**  
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## SECTION II - COMPANIES AND MARKETS FINANCIAL TIMES

Tuesday December 22 1987

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### Redland agrees to buy Monier tile unit for A\$298m

BY NIKKI TAIT IN LONDON

REDLAND, the British building materials group, has finally settled its long-running war with New Zealand's Equitcorp by agreeing to buy the roofing business of Monier, an Australian building products company in which it holds a 50.1 per cent stake, for A\$298m (US\$213m) cash.

In return, the UK company will accept a A\$4.15-a-share bid for Monier from Equitcorp, a group controlled by New Zealand businessman, Mr Allan Hawkins. The proceeds for that stake will total A\$320m.

The deal gives Redland full control of Monier's roof tile business in Australia, where it is the market leader. Redland will also own Monier New Zealand and the US roof tile business, plus 60 per cent of Nippon Monier in Japan, 60 per cent of PT Monier in Indonesia and 30 per cent of Thailand-based CPAC Monier.

Equitcorp, meanwhile, will retain Monier's concrete pipe and concrete pole interests, the masonry side, the metal businesses and the aggregates operations. The New Zealand group will also assume the bulk of Monier's debt; at end-June, these were put at A\$115m, and

Redland is taking on only A\$16m with the roofing businesses. The Monier name will remain with Redland.

In the year to end-June, Monier reported sales of A\$727m and pre-tax profits, after interest, of A\$45m. The roof tile side contributed A\$255m to those sales, and made an operating profit before tax and interest of A\$28.5m. Net assets of the roof tile businesses, before deducting debt, were put at around A\$167m at the year-end.

The takeover over Monier, Australia's largest roofing tile company, began last May when Equitcorp picked up a stake in Monier and launched a A\$667m cash or shares offer. At the time Redland owned 49 per cent of Monier - a stake which dates back to the 1960s - and was supporting a rival offer for its associate from CSR, the Australian sugar, building products and resources group.

CSR subsequently bowed out, and Equitcorp has since picked up 48 per cent of Monier shares. Any chance of control, however, was blocked when Redland raised its stake to 50.1 per cent in July. The two companies have since had negotiations in London and, most recently, in Sydney.

### James Buchan in New York witnesses the end of one of the bitterest corporate legal sagas in US history Texaco faces its agonising transformation

THE \$38n truce between Texaco and Pennzoil, which was presented to the court administering Texaco's bankruptcy yesterday, puts an end to one of the most bitter, complicated and expensive legal battles in US corporate history.

However, the plan to reorganise Texaco, which was filed in the Bankruptcy Court in White Plains, New York, yesterday, is also the first stage in what will be a radical and even agonising transformation of both companies.

The transfer of wealth will wipe out more than a fifth of Texaco's \$14bn net worth, could force a large-scale disposal of assets and might precipitate a hostile takeover. Mr Carl Icahn, the takeover specialist who yesterday doubled his Texaco stake to almost 11bn, is just one sword hanging over the head of Mr James Kinney, Texaco's chairman of a year.

"We've moved on from reorganisation," said Mr Wilbur Ross, the investment banker from Rothschild Inc, who is advising the committee of Texaco shareholders at the court. "The focus is on restructuring Texaco."

For Pennzoil, the \$38n payment is so large it would be alarming to anybody but Mr Hugh Liedtke, the busy Oklahoma oilman, who has built Pennzoil - and several other companies - from nothing in the past 35 years. But the payment will still double the gross assets of Pennzoil, which last year earned only \$454m.

It is an irony of the case that oil prices have fallen so far that Pennzoil can buy more oil with its \$38n today than the \$34bn it offered for the right to 1bn barrels of Getty Oil in January 1984. That deal was trumped by Texaco's \$10.1bn offer for all of Getty Oil, precipitating the legal battle.

However, before either company can address its grand strategy or Texaco emerge from Chapter 11 of the Bankruptcy Code, there are some time-consuming matters to tackle.

Texaco must gain the approval of two thirds of its voting shareholders for the plan. Mr Ross expects support to be overwhelming. About 40 per cent of Texaco stock is in professional Wall Street hands and the 30 per cent in its stock price as negotiations hotted up this month "indicates the market's approval."

Mr Icahn holds a further 12.3 per cent. But in case of a defeat at the vote, which should be held in February, Texaco will file with the US Supreme Court for permission to appeal the whole case.

Texaco will also begin raising cash to finance the settlement, which consists of \$38n to Pennzoil and \$28n to \$25bn in payment arrears to trade creditors, bankers and bondholders. The group, which reported earnings of \$725m last year, has more than \$4bn in cash assets, but much of this is working capital. Texaco will probably need to raise about \$2bn to \$3.5bn in bridging finance, which it will repay over 12 to 24 months through asset disposals. Wall



James Kinney

Street is talking about the possible sale of the European refining and marketing operations and Texaco Canada among other businesses.

However, Texaco has already announced more than a simple cashing in of assets. Even before the quarrel with Pennzoil, Texaco was not admired on Wall Street. Its rate of return consistently lagged that of the two US market leaders, Exxon and Mobil, and it was failing to find oil to replenish its reserves. It was to reverse this self-liquidation that Mr Kinney's predecessor, Mr John McKinley, bought Getty Oil.

Under intense pressure from Wall Street, and Mr Icahn, Mr Kinney announced on Saturday that Texaco and Morgan Stanley, its investment bank, would launch an "aggressive, imaginative and exhaustive review of every asset and operation."

Mr Ross of the shareholders' committee said yesterday: "Coming out of Chapter 11 is like life after death. Texaco went in burdened with the historic happenstance of a given set of businesses built up over 80-odd years."

"Now they can make rational decisions about what Texaco should look like in the spring of 1988. They have a large mass of



Hugh Liedtke

assets that may be of more use to somebody else. They could make acquisitions to round out other businesses out. They have a wonderful opportunity."

Mr Icahn, who yesterday bought a further 12.1m Texaco shares at \$37 each, was blunt. "It is our belief that Texaco should either undergo a serious restructuring or be sold."

Mr Icahn bought the shares under a right of first refusal from Mr Robert Holmes & Court, the Australian financier who has been troubled by liquidity problems since the stock-market crash in October.

Pennzoil also has its set of headaches. Mr Liedtke, who is 65 and delayed his retirement to see out the litigation, must find some way of keeping the \$38n out of the hands of the taxman and Pennzoil's lawyers, including Mr Joe Jamail, the brilliant Houston trial lawyer who pulled off the \$10.1bn damages award.

Tax lawyers say Pennzoil's tax liability could be as high as \$1bn. But Pennzoil may be able to reinvest the cash in new assets as if these were merely replacing the 1bn barrels "lost" to Texaco.

Guesses at Mr Jamail's compensation range as high as 20 per cent of the final settlement, or \$800m. The salty Mr Jamail denies this figure, but will not say what he will receive. "It's personal," he told a Houston reporter. Like "your sex life."

Even so, Pennzoil may have as much as \$2bn available either to distribute to stockholders or to purchase new assets.

Mr Kinney and Mr Liedtke did not meet to sign their historic agreement in Manhattan on Saturday. They signed identical copies of the same document. But they did speak briefly on the telephone.

They wished each other luck.

### Bavarian bank expands with Italian purchase

BY HAIG SIMONIAN IN FRANKFURT

BAYERISCHE VEREINSBANK, the fifth biggest bank in West Germany, has reached agreement to buy the Milan and Rome offices of First National Bank of Chicago for an undisclosed sum.

The deal, which still requires approval from the Bank of Italy, should allow Bayerische Vereinsbank to set up in business by next spring, an official said.

The bank, which is the biggest in Bavaria, already has representative offices in Rome and Modena. If the deal is approved, Bayerische Vereinsbank intends

to maintain these operations alongside the two First Chicago offices, which together employ about 48 staff.

A number of German banks have been strengthening their coverage of the Italian market recently, partly with a view to the European Community's planned free market in financial services in 1992.

In the biggest transaction of its kind, Deutsche Bank last year bought Banca d'America e d'Italia, a \$800m bank from Bank of America.

### Pan Am-Braniff talks may fail

BY RODERICK ORAM IN NEW YORK

TALKS aimed at securing a merger of Pan American World Airways and Braniff appear to be heading for failure because Pan Am's five unions are disagreeing over wage cuts and the practicality of the deal.

Under a conditional pact between Pan Am Corp, the airline's parent company, and Mr Jay Pritzker, chairman of Braniff, a struggling airline, Mr Pritzker has to win by today's deadline labour cost savings worth \$200m over the next four years to secure the merger.

In addition to stiff resistance to wage cuts from ramp unions, employees are growing increasingly resis-

tant to the proposal to merge with the main overseas airline subsidiary of Braniff while leaving Pan Am's profitable commuter airline and Boston-New York-Washington shuttle, in the hands of Pan Am Corp.

They argue that the domestic and overseas operations must remain unified if the airline is to succeed.

Union officials said they believed Mr Pritzker might propose to the Pan Am board later this week a broader deal involving all the company's airline units. This may run into strong opposition, however, from senior management who

were planning to take the shape of Pan Am Corp private after Pan American World Airways was merged with Braniff.

The original proposals called for Pan Am to keep the commuter and shuttle operations and Pan Am World Service, which provides consulting and ground services to other airlines.

To complicate matters, there are also signs that the bitter dispute between Mr Edward Acheson and Mr Michael Shugart, Pan Am's chairman and vice chairman, is far from resolved. Mr Shugart had argued strenuously for keeping the company intact and

### Santa Fe fails to agree terms

BY OUR NEW YORK STAFF

SANTA FE Southern Pacific and Hensley Group have failed to agree on terms for purchase of Henley's 14.7 per cent stake in the railway, natural resources and property group.

Discussions about buying back the shares started after merger talks between the two groups, which would have led to the largest non-oil takeover in US history, foundered on price and regulatory issues 10 days ago.

Santa Fe yesterday reiterated its intention to speed up its own restructuring. It hopes to announce soon the sale for more than \$1bn of its Southern Pacific railroad subsidiary, a move forced on it by anti-trust officials in Washington. Coupled with proceeds from other disposals, it would enable Santa Fe to make a

distribution to shareholders during the first quarter of next year. It said previously that the payout would be around \$4bn, equal to about \$35.50 a share. Henley, a California-based industrial conglomerate, had no immediate comment yesterday on the end of share buyback talks.

If Santa Fe had agreed on a price, it would probably have had to offer the same terms to Olympia and York, the Toronto property and natural resources group which has an 8.2 per cent stake in Santa Fe. Olympia and York announced earlier this month that it had decided against a bid for Santa Fe.

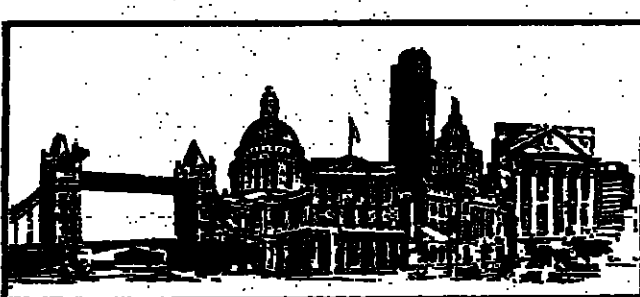
But Wall Street is uncertain whether recent developments mark the end of Olympia and York and Henley's interest in

Santa Fe, whose share price slipped by 8% to \$47.4. Santa Fe had been holding out for \$68 a share cash bid from Henley.

● Singer, the US defence electronics company, says its board believes a \$50-a-share tender offer by a group led by Mr Paul Bilzerian, the Florida investor, is acceptable.

Last month, the company's board urged shareholders to reject Mr Bilzerian's bid as inadequate, but has since been unable to find an alternative offer for merger or acquisition.

In announcing its latest decision, the board stopped short of recommending the Bilzerian offer to shareholders, saying it was concerned about the availability of financing.



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By: The Chase Manhattan Bank, N.A.  
London, Agent Bank

December 22, 1987

**Notice of Change of Registrar**

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NOTICE IS HEREBY GIVEN to holders of the Stocks that, with effect from 20th October, 1987, National Westminster Bank PLC, Registrar's Department, has ceased to act as registrar for the Stocks and that the Bank of England, Registrar of Companies, has assumed the duties, responsibilities and functions of registrar of the Stocks as from such date.

Separate written notice of the above change of Registrar has already been given by post to holders of Registered Stock at their registered addresses (in the case of joint holders to the address of the holder whose name stands first in the Register). Further separate written notice will be given by post to holders of Registered Stock as to any consequential matters arising out of the change of Registrar.

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December 22, 1987

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In accordance with the provisions of the Notes, notice is hereby given that the rate of interest has been fixed at 8 1/4 per cent, and that the interest payable on the relevant interest payment date 22 June 1988 against Coupon No. 12 will be U.S.\$170.29.

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per U.S. \$100,000 Note U.S. \$2,068.62

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**NOTICE OF REDEMPTION TO HOLDERS OF European Atomic Energy Community (EURATOM) 12 1/4% Bonds due February 1990**

NOTICE IS HEREBY GIVEN that pursuant to the conditions of the Bonds of the above mentioned issue, Citicorp Investment Bank (Luxembourg) S.A., as principal paying agent, has drawn by lot, for redemption on February 1, 1988 at 100% of the principal amount thereof through operation of sinking fund, US\$5,500,000 - principal amount of said 12 1/4% Bonds due February 1, 1990 as follows:

Bond ending with digit 0 and 3 except Bonds numbered: 7800, 7810, 7820, 7830, 7840, 7850, 7860, 7870, 7880, 7890, 7900, 7910, 7920, 7930, 7940, 7950, 7960, 7970, 7980, 7990 and 8000.

The Bonds specified above will become due and payable in US\$ at the offices of Citicorp Investment Bank (Luxembourg) S.A., Citibank, N.A., New York, Citibank, N.A., London, Citibank, N.A., Brussels, Citibank, N.A., Frankfurt, Citicorp Investment Bank (Switzerland) Zurich, Citibank, N.A., Paris and after February 1, 1988 interest on the above mentioned Bonds will cease to accrue.

Notes should be surrendered for the payment together with all unannounced coupons pertaining thereto falling due on or before the date of the maturity of the coupon to be deducted from the principal amount. The aggregate principal amount of Bonds remaining outstanding after February 1, 1988 will be US\$13,300,000.

Notes selected for redemption on February 1, 1988 which have not been presented for payment are: 77, 92, 1047.

Notes selected for redemption on February 1, 1987, which have not been presented for payment are: 48, 78, 88, 93, 105, 118, 126, 128, 1026, 1042, 1158, 1168, 1242.

December 22, 1987

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Payment of the principal amount, together with accrued interest to the Prepayment Date, will be made on the Prepayment Date against presentation and surrender of the Certificates at the London Branch of the Bank.

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**REGIONAL DEVELOPMENT**

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December 22, 1987, London  
By: Citibank, N.A. (Citi Dept.), Agent Bank **CITIBANK**



## INTERNATIONAL CAPITAL MARKETS &amp; COMPANIES

## JAL share sale goes off smoothly

BY CARLA RAPAPORT IN TOKYO

JAPANESE investors failed to reap huge gains on the sale of the Government's 50% stake in Japan Air Lines, but the offer went off smoothly nonetheless.

JAL's shares had lost more than 22 per cent of their value in the two weeks before the Government's sale of its remaining stake in the airline last week. Some had feared that the lacklustre state of the market would scare off investors.

Even so, the Ministry of Finance yesterday reported that all the 45m shares had been sold at the striking price of ¥13,400. Investors could technically begin trading the new shares yesterday. By the end of the day, however, JAL's share price had slipped from ¥13,800 to close at

¥13,500. With brokerage fees, this means that any early profit-takers would most likely have been disappointed with their JAL shares.

"It looks like the new JAL shares are turning into an investment," said one Tokyo-based stockbroker yesterday. "It doesn't make sense to sell them now."

The success, from the Government's point of view, however, again underlines the peculiar strengths of the Tokyo Stock Exchange. JAL's shares had reached a peak of ¥20,100 in mid-October and in spite of the share price's recent fall, government officials were confident that the issue would succeed.

Officials deny that they can influence the market, but the JAL sell-off seems to indicate that they can help direct the market's movements through consultations with Japan's leading stockbrokers. These consultations appeared to help keep the market relatively steady during the period of the JAL sell-off.

Some say that the Government wanted the JAL price run down before the sale to make the shares more attractive to investors. Even at its lower price, JAL was trading on an astronomical price/earnings ratio of about 360.

Tokyo's Nikkei share index has shed only 15 per cent of its value since its peak reached last October, compared to falls of more

than twice that size in London and New York. Foreign investors have been heavy sellers of the Tokyo market fearing that a further collapse in equity prices is looming in Japan.

It remains unclear how long the Ministry of Finance and Japan's leading stockbrokers can support the Tokyo bourse if an increasing number of domestic investors find that the value of their portfolio is going down. Many purchasers of the recent sale of shares in Nippon Telegraph and Telephone, for example, bought the shares on margin. NTT is now trading at about 5 per cent below its selling price.

In the meantime, Japan's stockbrokers remain confident that Tokyo can ride out any more storms.

## Murdoch faces more Australian bid snags

By Chris Sharwell in Sydney

MR RUPERT MURDOCH'S News Corporation yesterday ran into a further obstacle over its controversial plans to acquire a controlling interest in Australian Associated Press (AAP), the country's only domestic news wire service, and in Australian Newspapers Printing Mills, the only newspaper manufacturer.

In a successful legal move, the Trade Practices Commission (TAC) yesterday obtained an injunction in the Federal court which halts News's proposal to acquire shareholdings in the two companies held by John Fairfax, the rival media group.

Purchase of the 'stakes' would give News 80 per cent of AAP and increase its holding in Reuters, the international news agency, to an estimated 52.75m (US\$195.2m) deal would also give News more than 90 per cent of Australian Newspapers Printing Mills.

Together, the proposed acquisitions would give News a dominant position in several key areas of the media, designed to reduce the debt burden facing Fairfax, the company controlled by Mr Warwick Fairfax who takes the media group private in a \$2.55bn deal.

The TPC's court action follows its statement earlier this month that News Corporation's proposed acquisition of AAP and Reuters was a breach of the Trade Practices Act, by giving News dominance of a market.

News agreed to a temporary suspension of its plans while it prepared a further submission and it gave the commission an assurance that it would not proceed with the proposed acquisitions without prior discussion with the commission.

Later, Mr Murdoch said his preference was for AAP's media service to be owned, operated and financed as a co-operative, and News intended that this would still be the case. As events transpired, the commission failed last Friday to secure an unqualified undertaking from News that it would not proceed with the acquisitions. Yesterday it went ahead and sought the injunction.

## Three issues emerge for Far East placement

BY CLARE PEARSON

THREE new issues emerged in the Eurobond market yesterday. This was an unusual development so late in the year, but all the bonds were designed for placement in the Far East rather than for active trading.

First, Mitsui Finance International announced Wings 4, a complex A\$195.4m deal representing a repackaging of existing bonds in a variety of currencies. It is aimed at institutional investors wishing to reduce their exposure to the Australian dollar.

The bond, which matures in March 1997, priced at 102, is payable and bears 7 per cent interest in Australian dollars. It is secured on a cocktail of fixed rate bonds denominated in that currency as well as New Zealand dollars, Dutch guilders and sterling, and its redemption amount in US dollars will be calculated according to a complicated formula based on this cocktail.

Later in the day, IBJ International announced two small deals for an overseas unit of Development Finance Corporation of New Zealand and Union Bank of Finland. An IBJ executive said both of the issues had been placed.

DFC's NZ\$120m five-year bond may be put, is priced at 100.20 and pays three-month New Zealand bank bill rate less 60 basis

points. It will not be listed. Union Bank of Finland's ¥50m 5 1/2 per cent five-year bond is priced at 101.65.

Elsewhere, trading in the secondary Eurobond market "closely resembled watching paint dry," as one dealer put it, with most market makers having closed their trading books ahead of the Christmas break.

Standard & Poor's, the US credit rating agency, said it might upgrade the debt of Texaco's company's weekend proposal to pay Pennzoil, another US oil company, \$3bn to settle a judgement won two years ago.

The news had little effect on prices of Texaco's bonds yesterday, although dealers said prices had risen by about 10 points over the last few weeks in anticipation of a settlement of the legal dispute. Yesterday some Texaco bonds were quoted at around 90.

Elsewhere, Eurodollar bond prices were marked around 9 1/2 percentage points higher following weekend gains in the US Treasury bond market on the back of lower oil prices.

Euroyen bonds were also marked higher by about 4 1/2 percentage points in the Japanese government bond market. Dealers said there seemed to be fuelled by expectations that

Nomura Securities would be active in the Tokyo market as it was moving to a new trading room yesterday.

Longer-dated Eurosterling bond prices rose by about 4 1/2 points in reaction to a better tone in the gilt market. Shorter-dated issues however were inactive.

In the D-Mark market, domestic bond prices rose by about 4 1/2 points. The 6 1/2 per cent federal government bond was fixed at 99.60, some 30 basis points higher than on Friday. Details of a new repurchase agreement which will drain DM7.5bn are expected today. The most recent rate on repurchase agreements has been 3 1/2 per cent.

Prices of D-Mark Eurobonds rose by about 4 1/2 points. Some buying interest, mostly focussed on shorter-dated bonds, emerged. In the Swiss franc market, foreign bond prices stayed firm in unusually high turnover for the time of year. A 5 per cent World Bank issue closed 1/2 point higher at 104.

Wirtschafts- und Privatbank is expected to announce today a SF\$100m 10-year 4 1/2 per cent bond for Bayerische Vereinsbank Overseas Finance, priced at 100 1/2.

Swiss Bank Corporation yesterday increased to SF\$125m from SF\$100m a recent four-year bond for Occidental Petroleum.

## Spain plans tighter curbs on bank stakes

BY DAVID WHITE IN MADRID

THE TAKING of equity positions in Spanish banks is to come under much tighter control, under legislation proposed by the Socialist Government.

The changes, which give the Bank of Spain the right to block investors seeking to gain through shareholdings of 15 per cent or more, reflect the concern raised in government circles by this year's series of significant share movements, and in particular the Kuwait

Investment Office's direct and indirect purchases into leading Spanish banks.

KIO has since pooled its shares in Banco Central, the largest commercial bank, in a joint venture with the building group, Construcciones y Contratas, with the aim of controlling more than 12 per cent, by far the largest single holding. KIO's Spanish affiliate, Torres Hostench, also became the top shareholder in Banco de Vizcaya before the bank itself bought the shares

back. The Banking Bill, just sent to Congress, where the Socialist majority makes approval a foregone conclusion, obliges any investor seeking to obtain 15 per cent of a bank, either directly or indirectly, to seek prior authorisation from the Bank of Spain.

This move, which effectively introduces a fresh barrier in Spain's largely liberalised foreign investment code, is seen by officials as providing Spain with the same defences as those applied

in other EC countries, such as the UK.

Anyone buying 5 per cent or more of a bank's capital must inform the bank concerned and the Bank of Spain within 10 days, stating the real holder of the participation.

Banks themselves will be obliged to inform the authorities about participation in their capital by other Spanish or foreign credit institutions and about the shares they in turn hold in other banks.

## Siemens, Allied Signal in motor electronics deal

BY ANDREW FISHER IN FRANKFURT

SIEMENS of West Germany plans to co-operate with Allied Signal of the US in the rapidly growing sector of automobile electronics, with the aim of developing, making and selling new products to the world motor industry.

The two companies said yesterday they had signed a memorandum of understanding aimed at setting up a joint venture in the sector. Growth in the automobile electronics business has been running at between 20 and 25 per cent annually in recent years, Siemens said.

Between them, the two companies have some 8,000 employees in the sector and a turnover exceeding \$600m, still very small in relation to their total sales. But the West German company has made clear that it sees large growth potential in this, with the average value of electronics

in cars expected to double by 1990.

Siemens and Allied Signal will concentrate on products and systems aimed at increasing safety and comfort, improving driving control and engine performance, and reducing pollution. Each will have 50 per cent of the proposed joint venture, which will include Siemens facilities in West Germany and Italy and those of Allied Signal in the US, Canada, Brazil and France.

So far, Siemens sales of automobile electronics amount to only about DM430m (\$264m) out of its total yearly turnover of more than DM51bn. It employs 3,700 in the sector. Through its Bendix Electronics subsidiary, the US company has turnover of \$320m and employs 4,200 in the sector. Allied Signal's total sales are around \$12bn.

## Swiss temps agency sees 25% rise in turnover

BY JOHN WICKS IN ZURICH

ADIA, the Lausanne-based temporary employment agency, expects 1987 turnover to be up by some 25 per cent to about SF\$2bn (\$1.5bn), accompanied by a further growth in profits.

In 1986 the group - the world's third biggest of its kind - registered an 18 per cent rise in turnover to a consolidated SF\$1.6bn, with net earnings up 43 per cent to SF\$27.2m.

Adia says that business continues to develop "very favourably". In recent weeks volumes have been at a record level for the autumn season.

At the same time Adia Services, the group's American affiliate, has announced the acquisition of Comp-u-staff, a Baltimore company specialising in data-processing staff and operating seven offices with turnover of about \$16m.

Following this takeover Adia now has some 377 offices in the US alone. In all, the group operates from more than 1,000 offices in 17 countries. Among its leading European subsidiaries is Alfred Marks in London.

Sandoz, the Swiss chemicals group, is to acquire D-Center division, the Belgian market leader in the dietetic and health foods sector.

With sales of some BFR400m (\$11.7m) a year, this will expand Sandoz's activities in the dietetic field following last year's purchase of a stake in Cereal, the French group.

These operations form part of the Basle concern's nutrition division, which booked 1986 sales of some SF\$1.04bn. The best-known products from this division are Ovaltine and Wassa crispbread.

## Canada push by Western Mining

By Our Sydney and Montreal Correspondents

WESTERN MINING, one of Australia's largest gold and mineral producers, is extending its overseas interests with a second Canadian mine purchase within a week. It said yesterday it would pay C\$160m (US\$122.5m) for Northgate Mines, a gold and copper producer, and would bid for Norbreen Mines, a mineral exploration company, in which Northgate has a 35 per cent stake.

The move follows last week's announcement that it would bid \$1.45bn for Seabright Resources, a company with operating mines and reserves in Nova Scotia.

Western's overall aim is to establish a significant exploration and mining operation in Canada, thereby diversifying its interests geographically.

To further its plans it is dipping into A\$1.2bn of cash reserves. A\$456m from the sale of assets in 1986-87 and A\$840m from a rights issue and share placing.

Western said last month its overall share of gold production was expected to be more than 450,000 oz in 1987-88. Among other operations it owns 5 per cent of the Olympic Dam copper-gold project, and is a leading nickel producer and aluminium smelter.

Northgate bought the two mines in 1981 for C\$65m. After repayment of bank debt, it will have C\$131m available from the deal to be invested in other mining and resource projects. Some of the proceeds may be distributed directly to shareholders.

The two Quebec mines produced a peak 81,500 oz of gold in 1986 and 13.9m lb copper plus 111,000oz silver.

## Japan grants four licences

THE JAPANESE Finance Ministry said yesterday it would grant securities licences to four more foreign brokerage firms.

They are Smith New Court of the UK, Fidelity Investments (Japan) and Garban, both of the US, and BNP Securities, a British unit of France's Banque Nationale de Paris.

## Packer pulls out of Ariadne purchase

MR KERRY PACKER, the Australian media magnate, and a Japanese businessman have withdrawn from a planned acquisition of 18.7 per cent of Ariadne Australia, an investment company hit hard by the October stock market collapse, AP-JJ reports from Sydney.

Last month Mr Packer, chairman of Consolidated Press Holdings, and Mr Harunori Taka, Japanese president of EIE Development, entered a conditional agreement to buy the Ariadne stake for A\$88.4m (US\$66.6m). But Oxted, their joint venture partner, said yesterday it had ended the agree-

ment because certain conditions were not met in time. Although it did not disclose these, the original agreement said completion of the sale depended on Oxted examining Ariadne's affairs, obtaining finance from Bank of New Zealand, and approvals from governments and from Ariadne's secured creditors.

The stake was to have been acquired from Judge Corporation of New Zealand, an Ariadne associate.

Ariadne is a property, resource and financial services and industrial concern that was one of Australia's fastest-growing

companies before the market collapse.

Its financial operations include a joint venture investment bank in the US with Mr William Simon, a former US Treasury Secretary. Through this it controls three savings and loan associations in California and Hawaii.

Oxted indicated yesterday it still might be interested in negotiating for a stake in Ariadne or for some of Ariadne's assets, which are being sold off. Simon was reported as saying Mr Simon has made an "informal proposal" that "could lead to further discussions" with Oxted.

## FT INTERNATIONAL BOND SERVICE

Listed are the latest international bonds for which there is an adequate secondary market.

ISB are the latest international bonds for which there is an adequate secondary market										Closing prices on December 21			
US DOLLAR										Change on			
STRAIGHTS	Amount	Rate	Offer	Day week	Yield	STRAIGHTS	Amount	Rate	Offer	Day week	Yield		
Algeria 7 1/2 %	200	95 1/2	97 1/2	+1.48	10.33	Algeria 7 1/2 %	45	94 1/2	97 1/2	+0.25	5.20		
Algeria 8 1/2 %	100	95 1/2	97 1/2	+1.48	10.33	Algeria 8 1/2 %	45	94 1/2	97 1/2	+0.25	5.14		
Algeria 9 1/2 %	150	97 1/2	97 1/2	+0.25	10.33	Algeria 9 1/2 %	45	94 1/2	97 1/2	+0.25	5.38		
Algeria 10 1/2 %	150	97 1/2	97 1/2	+0.25	10.33	Algeria 10 1/2 %	45	94 1/2	97 1/2	+0.25	5.38		
Algeria 11 1/2 %	150	97 1/2	97 1/2	+0.25	10.33	Algeria 11 1/2 %	45	94 1/2	97 1/2	+0.25	4.80		
Algeria 12 1/2 %	200	102 1/2	102 1/2	+0.25	10.33	Algeria 12 1/2 %	250	97 1/2	97 1/2	+0.25	4.87		
Algeria 13 1/2 %	200	95 1/2	97 1/2	+1.48	10.33	Algeria 13 1/2 %	250	97 1/2	97 1/2	+0.25	4.87		
Algeria 14 1/2 %	200	95 1/2	97 1/2	+1.48	10.33	Algeria 14 1/2 %	250	97 1/2	97 1/2	+0.25	4.87		
Algeria 15 1/2 %	200	95 1/2	97 1/2	+1.48	10.33	Algeria 15 1/2 %	250	97 1/2	97 1/2	+0.25	4.87		
Algeria 16 1/2 %	200	95 1/2	97 1/2	+1.48	10.33	Algeria 16 1/2 %	250	97 1/2	97 1/2	+0.25	4.87		
Algeria 17 1/2 %	200	95 1/2	97 1/2	+1.48	10.33	Algeria 17 1/2 %	250	97 1/2	97 1/2	+0.25	4.87		
Algeria 18 1/2 %	200	95 1/2	97 1/2	+1.48	10.33	Algeria 18 1/2 %	250	97 1/2	97 1/2	+0.25	4.87		
Algeria 19 1/2 %	200	95 1/2	97 1/2	+1.48	10.33	Algeria 19 1/2 %	250	97 1/2	97 1/2	+0.25	4.87		
Algeria 20 1/2 %	200	95 1/2	97 1/2	+1.48	10.33	Algeria 20 1/2 %	250	97 1/2	97 1/2	+0.25	4.87		
Algeria 21 1/2 %	200	95 1/2	97 1/2	+1.48	10.33	Algeria 21 1/2 %	250	97 1/2	97 1/2	+0.25	4.87		
Algeria 22 1/2 %	200	95 1/2	97 1/2	+1.48	10.33	Algeria 22 1/2 %	250	97 1/2	97 1/2	+0.25	4.87		
Algeria 23 1/2 %	200	95 1/2	97 1/2	+1.48	10.33	Algeria 23 1/2 %	250	97 1/2	97 1/2	+0.25	4.87		
Algeria 24 1/2 %	200	95 1/2	97 1/2	+1.48	10.33	Algeria 24 1/2 %	250	97 1/2	97 1/2	+0.25	4.87		
Algeria 25 1/2 %	200	95 1/2	97 1/2	+1.48	10.33	Algeria 25 1/2 %	250	97 1/2	97 1/2	+0.25	4.87		
Algeria 26 1/2 %	200	95 1/2	97 1/2	+1.48	10.33	Algeria 26 1/2 %	250	97 1/2	97 1/2	+0.25	4.87		
Algeria 27 1/2 %	200	95 1/2	97 1/2	+1.48	10.33	Algeria 27 1/2 %	250	97 1/2	97 1/2	+0.25	4.87		
Algeria 28 1/2 %	200	95 1/2	97 1/2	+1.48	10.33	Algeria 28 1/2 %	250	97 1/2	97 1/2	+0.25	4.87		
Algeria 29 1/2 %	200	95 1/2	97 1/2	+1.48	10.33	Algeria 29 1/2 %	250	97 1/2	97 1/2	+0.25	4.87		
Algeria 30 1/2 %	200	95 1/2	97 1/2	+1.48	10.33	Algeria 30 1/2 %	250	97 1/2	97 1/2	+0.25	4.87		
Algeria 31 1/2 %	200	95 1/2	97 1/2	+1.48	10.33	Algeria 31 1/2 %	250	97 1/2	97 1/2	+0.25	4.87		
Algeria 32 1/2 %	200	95 1/2	97 1/2	+1.48	10.33	Algeria 32 1/2 %	250	97 1/2	97 1/2	+0.25	4.87		
Algeria 33 1/2 %	200	95 1/2	97 1/2	+1.48	10.33	Algeria 33 1/2 %	250	97 1/2	97 1/2	+0.25	4.87		
Algeria 34 1/2 %	200	95 1/2	97 1/2	+1.48	10.33	Algeria 34 1/2 %	250	97 1/2	97 1/2	+0.25	4.87		
Algeria 35 1/2 %	200	95 1/2	97 1/2	+1.48	10.33	Algeria 35 1/2 %	250	97 1/2	97 1/2	+0.25	4.87		
Algeria 36 1/2 %	200	95 1/2	97 1/2	+1.48	10.33	Algeria 36 1/2 %	250	97 1/2	97 1/2	+0.25	4.87		
Algeria 37 1/2 %	200	95 1/2	97 1/2	+1.48	10.33	Algeria 37 1/2 %	250	97 1/2	97 1/2	+0.25	4.87		
Algeria 38 1/2 %	200	95 1/2	97 1/2	+1.48	10.33	Algeria 38 1/2 %	250	97 1/2	97 1/2	+0.25	4.87		
Algeria 39 1/2 %	200	95 1/2	97 1/2	+1.48	10.33	Algeria 39 1/2 %	250	97 1/2	97 1/2	+0.25	4.87		
Algeria 40 1/2 %	200	95 1/2	97 1/2	+1.48	10.33	Algeria 40 1/2 %	250	97 1/2	97 1/2	+0.25	4.87		
Algeria 41 1/2 %	200	95 1/2	97 1/2	+1.48	10.33	Algeria 41 1/2 %	250	97 1/2	97 1/2	+0.25	4.87		
Algeria 42 1/2 %	200	95 1/2	97 1/2	+1.48	10.33	Algeria 42 1/2 %	250	97 1/2	97 1/2	+0.25	4.87		
Algeria 43 1/2 %	200	95 1/2	97 1/2	+1.48	10.33	Algeria 43 1/2 %	250	97 1/2	97 1/2	+0.25	4.87		
Algeria 44 1/2 %	200	95 1/2	97 1/2	+1.48	10.33	Algeria 44 1/2 %	250	97 1/2	97 1/2	+0.25	4.87		
Algeria 45 1/2 %	200	95 1/2	97 1/2	+1.48	10.33	Algeria 45 1/2 %	250	97 1/2	97 1/2	+0.25	4.87		
Algeria 46 1/2 %	200	95 1/2	97 1/2	+1.48	10.33	Algeria 46 1/2 %	250	97 1/2	97 1/2	+0.25	4.87		
Algeria 47 1/2 %	200	95 1/2	97 1/2	+1.48	10.33	Algeria 47 1/2 %	250	97 1/2	97 1/2	+0.25	4.87		
Algeria 48 1/2 %	200	95 1/2	97 1/2	+1.48	10.33	Algeria 48 1/2 %	250	97 1/2	97 1/2	+0.25	4.87		
Algeria 49 1/2 %	200	95 1/2	97 1/2	+1.48	10.33	Algeria 49 1/2 %	250	97 1/2	97 1/2	+0.25	4.87		
Algeria 50 1/2 %	200	95 1/2	97 1/2	+1.48	10.33	Algeria 50 1/2 %	250	97 1/2	97 1/2	+0.25	4.87		
Algeria 51 1/2 %	200	95 1/2	97 1/2	+1.48	10.33	Algeria 51 1/2 %	250	97 1/2	97 1/2	+0.25	4.87		
Algeria 52 1/2 %	200	95 1/2	97 1/2	+1.48	10.33	Algeria 52 1/2 %	250	97 1/2	97 1/2	+0.25	4.87		
Algeria 53 1/2 %	200	95 1/2	97 1/2	+1.48	10.33	Algeria 53 1/2 %	250	97 1/2	97 1/2	+0.25	4.87		
Algeria 54 1/2 %	200	95 1/2	97 1/2	+1.48	10.33	Algeria 54 1/2 %	250	97 1/2	97 1/2	+0.25	4.87		
Algeria 55 1/2 %	200	95 1/2	97 1/2	+1.48	10.33	Algeria 55 1/2 %	250	97 1/2	97 1/2	+0.25	4.87		
Algeria 56 1/2 %	200	95 1/2	97 1/2	+1.48	10.33	Algeria 56 1/2 %	250	97 1/2	97 1/2	+0.25	4.87		
Algeria 57 1/2 %	200	95 1/2	97 1/2	+1.48	10.33	Algeria 57 1/2 %	250	97 1/2	97 1/2	+0.25	4.87		
Algeria 58 1/2 %	200	95 1/2	97 1/2	+1.48	10.33	Algeria 58 1/2 %	250	97 1/2	97 1/2	+0.25	4.87		
Algeria 59 1/2 %	200	95 1/2	97 1/2	+1.48	10.33	Algeria 59 1/2 %	250	97 1/2	97 1/2	+0.25	4.87		
Algeria 60 1/2 %	200	95 1/2	97 1/2	+1.48	10.33	Algeria 60 1/2 %	250	97 1/2	97 1/2	+0.25	4.87		
Algeria 61 1/2 %	200	95 1/2	97 1/2	+1.48	10.33	Algeria 61 1/2 %	250	97 1/2	97 1/2	+0.25	4.87		
Algeria 62 1/2 %	200	95 1/2	97 1/2	+1.48	10.33	Algeria 62 1/2 %	250	97 1/2	97 1/2	+0.25	4.87		
Algeria 63 1/2 %	200	95 1/2	97 1/2	+1.48	10.33	Algeria 63 1/2 %	250	97 1/2	97 1/2	+0.25	4.87		
Algeria 64 1/2 %	200	95 1/2	97 1/2	+1.48	10.33	Algeria 64 1/2 %	250	97 1/2	97 1/2	+0.25	4.87		
Algeria 65 1/2 %	200	95 1/2	97 1/2	+1.48	10.33	Algeria 65 1/2 %	250	97 1/2	97 1/2	+0.25	4.87		
Algeria 66 1/2 %	200	95 1/2	97 1/2	+1.48	10.33	Algeria 66 1/2 %	250	97 1/2	97 1/2	+0.25	4.87		
Algeria 67 1/2 %	200	95 1/2	97 1/2	+1.48	10.33	Algeria 67 1/2 %	250	97 1/2	97 1/2	+0.25	4.87		
Algeria 68 1/2 %	200	95 1/2	97 1/2	+1.48	10.33	Algeria 68 1/2 %	250	97 1/2	97 1/2	+0.25	4.87		
Algeria 69 1/2 %	200	95 1/2	97 1/2	+1.48	10.33	Algeria 69 1/2 %	250	97 1/2	97 1/2	+0.25	4.87		
Algeria 70 1/2 %	200	95 1/2	97 1/2	+1.48	10.33	Algeria 70 1/2 %	250	97 1/2	97 1/2	+0.25	4.87		
Algeria 71 1/2 %	200	95 1/2	97 1/2	+1.48	10.33	Algeria 71 1/2 %	250	97 1/2	97 1/2	+0.25	4.87		
Algeria 72 1/2 %	200	95 1/2	97 1/2	+1.48	10.33	Algeria 72 1/2 %	250	97 1/2	97 1/2	+0.25	4.87		
Algeria 73 1/2 %	200	95 1/2	97 1/2	+1.48	10.33	Algeria 73 1/2 %	250	97 1/2	97 1/2	+0.25	4.87		
Algeria 74 1/2 %	200	95 1/2	97 1/2	+1.48	10.33	Algeria 74 1/2 %	250	97 1/2	97 1/2	+0.25	4.87		
Algeria 75 1/2 %	200	95 1/2	97 1/2	+1.48	10.33	Algeria 75 1/2 %	250	97 1/2	97 1/2	+0.25	4.87		
Algeria 76 1/2 %	200	95 1/2	97 1/2	+1.48	10.33	Algeria 76 1/2 %	250	97 1/2	97 1/2	+0.25	4.87		
Algeria 77 1/2 %	200	95 1/2	97 1/2	+1.48	10.33	Algeria 77 1/2 %	250	97 1/2	97 1/2	+0.25	4.87		
Algeria 78 1/2 %	200	95 1/2	97 1/2	+1.48	10.33	Algeria 78 1/2 %	250	97 1/2	97 1/2	+0.25	4.87		
Algeria 79 1/2 %	200	95 1/2	97 1/2	+1.48	10.33	Algeria 79 1/2 %	250	97 1/2	97 1/2	+0.25	4.87		
Algeria 80 1/2 %	200	95 1/2	97 1/2	+1.48	10.33	Algeria 80 1/2 %	250	97 1/2	97 1/2	+0.25	4.87		
Algeria 81 1/2 %	200	95 1/2	97 1/2	+1.48	10.33	Algeria 81 1/2 %	250	97 1/2	97 1/2	+0.25	4.87		
Algeria 82 1/2 %	200	95 1/2	97 1/2	+1.48	10.33	Algeria 82 1/2 %	250	97 1/2	97 1/2	+0.25	4.87		
Algeria 83 1/2 %	200	95 1/2	97 1/2	+1.48	10.33	Algeria 83 1/2 %	250	97 1/2	97 1/2	+0.25	4.87		
Algeria 84 1/2 %	200	95 1/2	97 1/2	+1.48	10.33	Algeria 84 1/2 %	250	97 1/2	97 1/2	+0.25	4.87		
Algeria 85 1/2 %	200	95 1/2	97 1/2	+1.48	10.33	Algeria 85 1/2 %	250	97 1/2	97 1/2	+0.25	4.87		
Algeria 86 1/2 %	200	95 1/2	97 1/2	+1.48	10.33	Algeria 86 1/2 %	250	97 1/2	97 1/2	+0.25	4.87		
Algeria 87 1/2 %	200	95 1/2	97 1/2	+1.48	10.33	Algeria 87 1/2 %	250	97 1/2	97 1/2	+0.25	4.87		
Algeria 88 1/2 %	200	95 1/2	97 1/2	+1.48	10.33	Algeria 88 1/2 %	250	97 1/2	97 1/2	+0.25	4.87		
Algeria 89 1/2 %	200	95 1/2	97 1/2	+1.48	10.33	Algeria 89 1/2 %	250	97 1/2	97 1/2	+0.25	4.87		
Algeria 90 1/2 %	200	95 1/2	97 1/2	+1.48	10.33	Algeria 90 1/2 %	250	97 1/2	97 1/2	+0.25	4.87		
Algeria 91 1/2 %	200	95 1/2	97 1/2	+1.48	10.33	Algeria 91 1/2 %	250	97 1/2	97 1/2	+0.25	4.87		
Algeria 92 1/2 %	200	95 1/2	97 1/2	+1.48	10.33	Algeria 92 1/2 %	250	97 1/2	97 1/2	+0.25	4.87		
Algeria 93 1/2 %	200	95 1/2	97 1/2	+1.48	10.33	Algeria 93 1/2 %	250	97 1/2	97 1/2	+0.25	4.87		
Algeria 94 1/2 %	200	95 1/2	97 1/2	+1.48	10.33	Algeria 94 1/2 %	250	97 1/2	97 1/2	+0.25	4.87		
Algeria 95 1/2 %	200	95 1/2	97 1/2	+1.48	10.33	Algeria 95 1/2 %	250	97 1/2	97 1/2	+0.25	4.87		
Algeria 96 1/2 %	200	95 1/2	97 1/2	+1.48	10.33	Algeria 96 1/2 %	250	97 1/2	97 1/2	+0.25	4.87		
Algeria 97 1/2 %	200	95 1/2	97 1/2	+1.48	10.33	Algeria 97 1/2 %	250	97 1/2	97 1/2	+0.25	4.87		
Algeria 98 1/2 %	200	95 1/2	97 1/2	+1.48	10.33	Algeria 98 1/2 %	250	97 1/2	97 1/2	+0.25	4.87		



# Leadership in Merchant Banking United Kingdom

## Consolidated Gold Fields PLC

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## Newmont Mining Corporation

*The undersigned acted as financial advisors to Consolidated Gold Fields PLC  
and executed the open market purchase program.*

## Consolidated Gold Fields PLC

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Merchant Banking Acquisition (MBA)<sup>SM</sup>  
Bridge Facility

*The First Boston Corporation committed to and provided  
for the entire amount of this facility.*

The First Boston Corporation

Crédit Suisse First Boston Limited



## UK COMPANY NEWS

## Economic Forestry at £1.25m

By Mike Smith

Economic Forestry Group, a company which manages woodlands, plants trees and markets timber, yesterday reported a 34 per cent increase in pre-tax profits for the year to September.

The £1.25m achieved was \$151,000 ahead of a forecast made by the company when it joined the Unlisted Securities Market in July.

Earnings per share were 8.48p (6.69p in the previous year before exceptional items) and a final dividend of 1.75p makes 3p for the year. Shares in Economic Forestry rose 7p to 95p.

Mr John Campbell, managing director, said the company was well placed to take advantage of opportunities which had arisen as a result of the recent storm in the south-east of England. Group turnover in 1986-87 was 15 per cent ahead at £35.26m.

## FT to help launch Canadian national financial daily

By Raymond Snoddy

The Financial Times and Mr Conrad Black, chairman of the Daily Telegraph, are to be partners in plans to launch Canada's first national financial daily newspaper early next year.

The FT, part of Pearson's information and entertainment interests, has signed a letter of intent to acquire 25 per cent of The Financial Post, a leading Canadian publisher of business and financial news. The Financial Post, at present a weekly with a circulation of 198,000, is to be converted into a daily from February.

Toronto Sun Publishing Corporation has agreed to buy The Financial Post division from Maclean Hunter for C\$46m. The FT will acquire its 25 per cent interest for C\$11.5m and a company controlled by Mr Black is to acquire 15 per cent of The

Financial Post for C\$6.9m. Toronto Sun Publishing will hold the remaining 60 per cent.

Mr Frank Barlow, chief executive of the FT, said yesterday: "I am delighted to have the chance to participate in the launch of Canada's first daily business newspaper, as well as investing in one of Canada's leading providers of financial information."

As well as its weekly business newspaper, The Financial Post publishes financial and business magazines and has interests in provision of business and financial information and in local radio.

The purchase is part of a new strategy of taking stakes in other financial dailies around the world to help maximise the exploitation of the FT's database. This will go ahead in parallel with the growing internationalisation of the FT itself which is printed in London, Frankfurt and New York and plans to begin printing near Lille, in France, next year.

In the wake of the stock exchange crash the FT is now also looking at the possibility of expansion in Australia.

Talks are under way with Mr Holmes A Court's Bell Group on the possibility of the FT acquiring control of the Australian Financial Review, the Australian financial daily. A preliminary report on a possible acquisition went before Pearson's executive directors committee yesterday.

The cover price of the FT will rise from 40p to 45p from January 2. The last increase in price was in December 1985. Mr Barlow yesterday blamed the rise on increases in newspaper prices of more than 20 per cent over the past two years.

## BP shares rise as KIO steps up stake

By Philip Coggan

FULLY PAID shares in British Petroleum rose 13p yesterday to 251p after the Kuwait Investment Office announced that it had increased its stake in the company to 14.06 per cent.

The KIO had no comment on the purchase but analysts were speculating that it could increase its stake to as much as 25 per cent. Its holding breached the 15 per cent level last week and it now has to declare any share purchases within 24 hours.

Meanwhile, the Bank of England confirmed that its buy-backs offer for the partly paid shares would close on January 6. The market mid-price for the partly paid shares yesterday was 70 1/2p, just above the 70p buy-back price, but many market makers were bidding below the support level.

The Stock Exchange has announced special arrangements for investors who wish to take up the Bank of England's offer. The terms of the Bank's offer require investors to return their allotment letters with their acceptance forms.

That might threaten the rights of those investors who buy shares between now and the close of the Bank's offer - since they would be dependent on a sell order being accepted. But, in such cases, the Stock Exchange is allowing buyers to force sellers to accept the offer on their behalf.

Such rights only apply to those who buy shares before December 29 and who give written notice to the seller's broker by December 31. BP is to acquire Dismark SA and the worldwide rights to the brand Gior. The purchase, from Roig SA, will considerably strengthen BP's presence in the European household and personal care markets.

## Arco increases its stake in Britoil to 14.7%

By Maurice Samuelson

Atlantic Richfield (Arco) has increased its stake in Britoil, UK's largest independent oil company, from 7.4 per cent to 14.7 per cent. The US group is British Petroleum's main challenger in the battle for control of Britoil.

The news came on the eve of today's meeting of the Takeover Panel which will rule on BP's plan to launch a full £2.27bn bid for Britoil, despite the Government's declaration last Friday that it would use its "golden share" in the oil company to prevent any bidder gaining board-

room control. BP holds 29.9 per cent of Britoil.

Under the Panel's existing rules, BP's bid could not become unconditional. A bidder needs to have acquired more than 50 per cent of the voting rights, which would not be possible because of the golden share.

The BP bid plan follows an agreement between Britoil and Arco under which the US group could eventually own 49.9 per cent of Britoil.

Meanwhile, Mr Nigel Lawson, Chancellor of the Exchequer,

was urged again yesterday to use the Government's share in Britoil to block BP's advances. The call came from the Scottish Nationalist Party which regards the Glasgow-based Britoil as a Scottish company.

Britoil has been awarded its first operatorship in Indonesia, where it already has stakes in three exploration areas. The operatorship and 100 per cent interest in the Sula block, totalling 25,000 sq kms, equivalent in size to about 120 North Sea blocks.

## Sharp &amp; Law in £26m buy

By Fiona Thompson

Sharp & Law, Bradford-based shopfitters group which came to the USM in May this year, is to buy BFN Group for £26.45m. BFN, one of the UK's leading specialist shopfitters, is a wholly-owned subsidiary of Hoogovens Group, Dutch steel company.

An initial £16.41m will be paid with a further £9.04m payable for the discharge of inter-group loans. In addition there will be a

payment of £1.36m for certain freehold and leasehold premises.

Sharp hopes to raise £16m by a six-for-five rights issue. It is offering 10.59m cumulative redeemable convertible preference shares yielding 7.01 per cent gross at 186p per share.

BFN has three principal divisions, one of which, the MFL leasing finance operation, Sharp

intends to sell, so reducing bank debt by £5m.

Sharp & Law has forecast pre-tax profits of £1.2m for the year to December 31, an increase of 47 per cent over the previous year. BFN has forecast pre-tax profits of £2.6m for the same year, after charging £320,000 of central management charges and inter-company rents.

## Flat display by Buckley's

By Lisa Wood

CHANGES in accounting policies reduced pre-tax profits of Buckley's Brewery, the South Wales brewer in which Brodian has a controlling stake, to £304,000 for the half year to September 26 compared with £567,000 in the same period last year.

Turnover was £7.2m (£6.6m) and the interim dividend is maintained at 0.9p.

Brodian is the nominee company representing the personal interests of Mr Guy Cramer and Mr Peter Cramer who bought their initial 27.57 per cent stake in Buckley's from Bestwood, the property and financial services group. They narrowly won control of Buckley's in October following a £29.2m cash bid.

Buckley's directors said the pre-tax profit was reduced by exceptional provisions of approximately £300,000 which it considered prudent following its comprehensive review of the

accounting policies adopted by the former board.

An extraordinary debit of £230,000 was made up of £310,000 in defending the takeover bid less the associated tax credit of £90,000.

The brewery, with some 154 pubs concentrated in South Wales, is expected to expand into a wider leisure field which could include hotels, restaurants and wine bars.

## Dawson seeks approval to buy its own shares

By Mike Smith

Dawson International, the textiles manufacturer, was one of three groups which announced yesterday that they are joining the growing list of companies to seek shareholder approval for buying in their own shares.

The other two were Helical Bar and Southern Stadium, both property companies. The buy-in trend has been sparked by October's stock market crash which has reduced some share prices to a level where companies can improve earnings per share by purchasing their shares in the market.

Dawson is seeking approval to

buy up to 15m shares, representing 9.5 per cent of the equity. It says it will pay no more than 5 per cent above the average of the middle market quotations for the 10 days prior to the day of purchase.

Southend Stadium, which is changing its name to Southend Property Holdings, is asking for authority to buy up to 2m shares, 4 per cent of the total. Helical Bar wants to purchase up to 10 per cent of both its ordinary and convertible preference shares. Meanwhile J Rothschild Holdings, investment company, said it had purchased a further 1.33m of its shares.

## DIVIDENDS ANNOUNCED

	Current payment	Date of payment	Corresponding div	Total for year	Total last year
Batleys	0.5	Feb 25	0.5	-	2.3
Buckley's Brew	0.9	-	0.9	-	3.3
Economic Forest	1.75p	-	-	3	-
Feed Holdings	1.75	Apr 6	1.5*	-	4.75*
TR Trustees	1	Feb 1	0.95*	-	2.2*

Dividends shown pence per share net except where otherwise stated. \*Equivalent after allowing for scrip issue. †On capital increased by rights and/or acquisition issues. \$USM stock. ‡Unquoted stock. †Third market.

## AIR PRODUCTS AND CHEMICALS, INC.

## £50m 9 1/2% Notes Due 1997

NOTICE IS HEREBY GIVEN that copies of the annual report and accounts of Air Products and Chemicals, Inc. for the year ended 30 September, 1987 are available from Baring Brothers & Co., Limited at the following address:

8 Bishopsgate  
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ENGLAND

## Auctions

The Financial Times proposes to publish this survey on the 29th January 1988.

A number of areas will be covered including:

- A. Commercial property
- B. Residential property and land
- C. Agricultural land and farms
- D. Industrial investments
- E. Retail property
- F. Plant and machinery
- G. Vehicles
- H. Fine art

For editorial synopsis or any further details on advertising rates please contact Emma Cox on 01-248-5115 or your usual Financial Times representative.

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**U** united news shops

A company formed by management has acquired United News Shops Limited and its subsidiaries from United Newspapers PLC.

**£22,500,000**

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Bank of Scotland  
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November 1987

## Lasso lifts Enterprise Oil stake to 25%

By Mike Smith

London and Scottish Marine Oil yesterday announced that it had bought 1m shares of yellow oil independent Enterprise Oil to raise its stake in the company to 25.36 per cent.

The purchases are part of a topping up operation designed to restore Lasso's stake to the 29.9 per cent level it had earlier this year before Enterprise acquired oil interests of ICL. Because of a merger and a rift but the issue is complicated by the Government owning a "golden share" in Enterprise. Shares in Enterprise rose 10p to 258p.

## Insurance duo to transform Sperati focus

By Nick Barker

An abrupt change in direction from buttons to insurance broking was signalled yesterday by C.A. Sperati (The Special Agency), one of the stock market's smallest quoted companies.

The tiny button and zip merchant said it had invited onto its board Mr George Boden and Mr Tony Keys, both former directors of Stewart Wrightson, the Lloyd's insurance broker. Sperati's shares jumped 53 to close at 513.

The arrival of Mr Keys and Mr Boden is to be a prelude to a foray into insurance broking led by the two men, who resigned from Wrightson after its recent merger with fellow broker Willis Towe.

"This will inevitably mean making acquisitions of insurance brokers," said Mr Keys. "We will be targeting UK retail broking for concrete risks, and certain specialist areas of the Lloyd's market."

At Wrightson, Mr Keys was group development director, while Mr Boden was best known for managing UK retail broking operations.

Their arrival is the biggest event in the recent history of Sperati, 68 per cent of whose shares are owned or represented by Mr James Alexander, a former Hill Samuel director.

The company yesterday revealed pre-tax profits of £40,088 for the year to October 31, on turnover of £464,901.

Sperati plans to enter into an option agreement to buy the entire capital of Anford Management, an insurance consultancy owned by Mr Keys and Mr Boden. This will require the issue of 9,500 Sperati shares.

## North of Scotland

Net asset value of the North of Scotland Investment Company, was 24.14p at November 30, a fall of 1.46p from a year earlier.

The half year to end-November saw gross revenue fall to £68,332 (£127,471). Earnings were 0.01p (0.31p).

This notice is issued in compliance with the requirements of the Council of The International Stock Exchange of the United Kingdom and the Republic of Ireland Limited.

## ATLANTIC SECURITIES TRUST LIMITED

(Incorporated in Guernsey under the Companies (Guernsey) Laws 1906 to 1973—No. 10040)

## Introduction to the Official List

Placing of 6,750,000 Ordinary Shares of 5p each at 72p per share

Rights Issue of £15,187,500 14 per cent.  
Unsecured Loan Stock 1997 at par

Share capital	
Authorised:	Issued and now being issued fully paid:
£1,500,000	£1,012,500
in Ordinary Shares of 5p each	

Loan capital	
£15,187,500 14 per cent. Unsecured Loan Stock 1997	

Application has been made to the Council of The Stock Exchange for the Ordinary Shares of 5p each in the Company, issued and now being issued, and the Loan Stock to be admitted to the Official List.

5,062,500 Ordinary Shares of 5p each are being placed by Henderson Crosthwaite Limited on behalf of Capitalcorp International Limited and 1,687,500 such shares are being placed by Marshall & Co. (Brokers) Limited as second distributor.

Listing particulars relating to the Company, including particulars of the Loan Stock, have been circulated in the External Statistical Services and copies of such listing particulars may be obtained during normal business hours until 24th December, 1987 from The Company's Announcements Office, The Stock Exchange, London EC2P 2BT and on any weekday (excluding Saturdays and public holidays) up to and including 22nd January, 1988 from:

Atlantic Securities  
Trust Limited,  
Commerce House,  
St. Peter Port,  
Guernsey,  
Channel Islands.

Henderson Crosthwaite  
Limited,  
38 St. Mary at Hill,  
London EC3P 3AJ.

Marshall & Co.  
(Brokers) Limited,  
22 Southampton Place,  
London WC1A 2EP

Dated 22nd December, 1987



## Allied believes Bond stake benevolent

Sir Derrick Holden-Brown, chairman of Allied-Lyons, said yesterday that he believed the intentions of Mr Alan Bond's Bond Corporation towards Allied-Lyons, in which it holds a stake of more than five per cent, to be benevolent.

Last week, Allied-Lyons disclosed that Mr Bond had increased his 2.5 per cent stake, built up before the stock market crash, to 5.01 per cent.

Sir Derrick said he had spoken to Mr Bond who had told him that he had increased his holding to average down the price he had paid for Allied shares acquired before the crash. Bond Corporation is understood to have bought its 2.5 per cent stake at an average of some 440p, on which it is now showing a substantial book loss.

Sir Derrick said he could not rule out the possibility of Mr Bond buying more Allied shares if he was seeking to average down the price of his stake. "I have not asked him how far he is going," said Sir Derrick.

## BET pays £11m to boost plant hire

BET has made two acquisitions worth £11.2m in cash and shares to add to its plant hire company, BET Plant Services.

The bigger purchase is that of Port Talbot Plant, a specialist in aerial work platforms with an annual turnover of some £4m. Cost is £7m comprising £1.5m cash and the issue of 2,548,146 shares.

Redspace is the other company. It offers hire and sale services nationwide and earns some £3m in annual turnover. Cost is £4.2m to be satisfied by the issue of 1,953,499 shares.

## GKN acquires German balance

GKN, which holds a controlling 75 per cent interest in Viscodrive GmbH, has acquired from Zahnradfabrik Friedrichshafen (ZF) the remaining 25 per cent of the equity. Viscodrive produces viscous control units which provide greater traction and better road-holding in cars and utility vehicles.

## M&G IN FAVOUR OF HONGKONG DEAL AFTER BEHIND-THE-SCENES TALKS

### Midland's link-up approved

BY RICHARD WATERS

Midland Bank and Hongkong and Shanghai Banking Corporation yesterday cleared the final hurdles, to what is widely regarded as a trial marriage of the two banks. But only after behind-the-scenes bargaining with M&G, unit trust management group, which controls more than 8 per cent of Midland's shares.

At an extraordinary meeting yesterday, Midland announced that it had received 151m proxy

votes in favour of the deal, and only 400,000 against. Shareholders, who voted at the meeting, which was concluded in less than 20 minutes, echoed this overwhelming majority.

Meanwhile Lord Young, Secretary of State for Trade and Industry, said that the Hongkong Bank stake would not be referred to the Monopolies and Mergers Commission.

Mr David Tucker, M&G deputy managing director, said that

M&G objected in principle to a company issuing shares to new rather than existing shareholders. But after discussions with Midland and the disclosure of more details, it voted in favour.

Midland said of the M&G discussions: "It would be wrong to say that they influenced the wording of the deal, but clearly we listened to them."

The deal, which involves Hongkong Bank acquiring 14.9 per cent of Midland for at least \$283m, does not need the

approval of the Bank of England. Under the Banking Act, which came into force this autumn, the Bank can only block stakes of more than 15 per cent in a British institution.

The two banks, which will merge parts of their operations in Europe, Asia and Canada, have said they will go no further down the merger road for at least three years. "We are in no way selling the bank," Sir Kit McMahon, Midland chairman, told shareholders yesterday.

## Sutcliffe Speakman at £0.57m

BY HEATHER FARMBOUGH

CONTINUING recovery at Sutcliffe Speakman, the engineering and carbon manufacturing company, helped boost pre-tax profits by 88 per cent to \$572,000 for the six months to September 30.

This was achieved despite a strike by one of the company's overseas suppliers. Sutcliffe Croshaw, the engineering and fabrication business also lost eight weeks' production owing to its move from Leigh, Lancashire, to Bole.

Turnover rose by 20 per cent from \$8.6m to \$10.3m. Interest charged fell from \$204,000 to \$129,000. Earnings per share were 3.1p (2.3p). The company has not paid a dividend for the last eight years.

Sutcliffe's carbon operations at Leigh are being modernised and extended over the second half, at a cost of approximately \$2.25m. The new kiln is expected to double capacity and to start to pay back within 15 months.

Slack demand by European gravure printers was offset by a high level of orders in the USA for Croshaw. Overheads were reduced substantially in the chemical trading business.

A marketing arrangement with Elders Resources will enable Sutcliffe to sell carbons in Australia and Eastern Europe, where demand is particularly strong for carbons in industrial and water treatment. Elders bought 9 per cent of Sutcliffe's shares last month.

Mr Nick Wilkes, chief executive said that further similar arrangements were unlikely: "We would rather paddle our own canoe."

Barney Cheney, a carbon company in the US which was also bought last month, will continue to be run by the original management. Sutcliffe is merging its own sales company into Barney to form a new company, Barney and Sutcliffe Corporation.

"We would expect further US acquisitions," said Mr Wilkes, but he added that the company would be unlikely to look further than environmental cleaning businesses.

Sutcliffe has been turned round from losses to profits by new management under Mr Wilkes, a former commodity shipper, who bought into the group when it acquired his for-

mer company, Wymouth Lehr in 1985.

### comment

Decaffeinated coffee, cigarette filters and gold recovery are unlikely bedfellows, but Sutcliffe has a 12 per cent market share of the carbons used in these products. It is less well represented in commodity carbons used for water treatment and decolourisation, which together account for around 65 per cent of the world's total carbon market. All these markets are growing, particularly in the US where demand for decaffeinated coffee has reached epidemic proportions.

Two of the largest West German producers are pulling out of Eastern Europe, so the Elders distribution deal is well timed. Add the benefits of modernisation and better management, and Sutcliffe's prospects look good. The company should report at least \$1.8m (£1.2m) for the year. A prospective rating of nearly 13 is not cheap relative to the sector, but the company's long term prospects may be more exciting than most.

## Burton accountancy change

BY RICHARD WATERS

Burton Group has taken the unusual step of producing separate balance sheets for its property and financial services companies to disclose more about these operations, following criticism of its off-balance sheet activities in the past.

But Burton's move is unlikely to suit the accounting purists, who are currently fighting to bring such "related" companies into companies' main accounts. Also, the Burton treatment will be blocked if the Department of Trade and Industry presses ahead with a planned change to the law on consolidated accounts.

By treating the two as related companies rather than subsidiaries, keeping them off its balance sheet, Burton shows borrowings of just \$259.7m, against shareholders funds of \$523.2m.

The \$378.1m borrowed by Burton Group Financial Services, its credit card arm, and \$70m by High Street Property Investments, which owns \$100m of property leased back to Burton, are relegated to a note to the accounts.

Finance director Michael Wood said yesterday that Burton has no liability for the property finance, while it only has a "minimal" liability for the debts of the financial services arm.

The financial services operation is entirely separate from the main business of the group and so should not be consolidated, he said.

The Department of Trade and Industry has proposed a change in the law that would force a company to treat another as a subsidiary if it can "determine the financial or operating policies of the subsidiary".

The DTI's proposed rule could result in companies which own more than around 50 per cent of another being forced to include it in its accounts, warned the Institute of Chartered Accountants of Scotland in a letter to the DTI last week.

## Benlox ends with 1.1% of Storehouse

By Nicki Tait

Benlox, the former sutor of retail combine Storehouse, which lapsed its "demerger" bid on Friday, yesterday announced that it controlled just 1.1 per cent of its target's shares by the third close. This represented a small reduction from the 1.36 per cent which it claimed at the second closing date in early December.

Benlox's own dealing subsidiary, Keastway, held 1.25m Storehouse shares (0.31 per cent). Moreover, the company directors, interests associated with directors, and parties in concert with Benlox announced during the course of the bid that they held around 2.3m shares (0.57 per cent).

A formal reaction from Storehouse to the lapsed offer said that the company was very pleased at the "overwhelming" rejection and that it could now concentrate on implementing strategies for the group.

### W.H. Smith deal

W.H. Smith & Son is paying \$5.7m in cash and new shares to acquire 32 retail travel agencies currently operated by the Ian Allan Group.

In addition, Smith will contribute \$300,000 in cash towards Ian Allan's anticipated reorganisation costs and the expenses of running the business until completion of the purchase.

Ian Allan Travel had a \$22m turnover in the last financial year and the company's earnings trading profits of around \$1m for the first year of its ownership of the business.

### Hodgson purchases

Hodgson Holdings, USM-quoted funeral director, has acquired four more funeral directors for a total of \$500,000 cash, including \$212,000 for properties. The purchases will add about 800 funerals a year making Hodgson's total more than 25,000.

The companies involved are J.E. Greathhead & Son of Doncaster, Woods Funeral Service of Bury, A.W. Armour & Sons of Ayrshire, and Ford Ennalls Funeral Services of Walsall.

## Bunzl to expand transportation side

BY MAGGIE URRY

Bunzl, the paper, packaging and distribution company, announced three more acquisitions yesterday with a total purchase price of \$16.4m.

All three businesses will fit into Bunzl's transportation division.

The largest is Robson's Distribution Services which Bunzl is buying from United Glass for \$14m. Robson's will continue to carry that company's business, largely delivering glass bottles to the whisky industry under a long-term contract. Work for United Glass is expected to represent a third to two-fifths of Robson's business.

Robson's assets - mainly 10 warehouses, 200 vehicles and 400

trailers - are valued at \$6m. Pre-tax profits for the year ended last month are expected to have been \$2.5m.

Of the other two acquisitions, together costing \$2.4m, the larger is Thompson Jewitt, which runs regular freight services to 50 European cities. It is unusual in having a customs-approved clearance depot at its headquarters in Nottingham.

The third is Clarence and Co, which services high street clothing retailers, unpacking, pressing, racking, warehousing and delivering imported garments. This will add some specialist skills to Bunzl's existing garment distribution operation.

## Batleys held in check by higher interest

Batley, Yorkshire-based cash and carry wholesaler, saw pre-tax profits slip back from \$652,000 to \$628,000 in the 26 weeks to October 31 due to the significant rise in interest charges which are up \$112,000 to \$152,000.

The directors said that because of the aggressive expansion policy, the company was beginning to incur much heavier interest charges. It had moved into Scot-

land for the first time, opening a warehouse at Edinburgh on November 1.

Turnover for the period rose from \$112,226 to \$123,108 and the operating profit from \$582,000 to \$780,000. Tax took \$236,000 (same) leaving attributable profits of \$544,000 (\$390,000) for earnings of 2.56p (2.73p) per ordinary share. The interim dividend is maintained at 0.5p.

## Astra Trust reduces loss

Astra Trust substantially reduced its pre-tax losses from \$740,000 to \$58,000 on turnover up from \$2.55m to \$2.76m for the six months to October 31 1987.

Loss per 5p share for the engineering, metals, leisure and property group (formerly Astra Industrial Group) was reduced to 0.08p (1.08p). There was a total trading profit of \$96,000 (\$6,000).

The directors said significant efforts had been made in bringing the group back to profitability and although results for the six months ended showed a loss, they were confident that it had "turned the corner" and that trading results would continue to improve.

The financial services division had made trading profits of \$32,000 since its start up in April and offered numerous opportunities for expansion. The engineering division with trading profits of \$87,000

(\$84,000) had made considerable progress not truly reflected in the results. Action was being taken to improve the lbf garment press and laundry machine manufacturing sector which recorded a trading loss of \$38,000 (\$2,000 profit). The loss in the leisure division was reduced from \$30,000 to \$15,000 while property made a \$10,000 profit (\$10,000 loss).

The directors were confident that the company could sustain a high level of organic growth, primarily through the financial services division, and the group would adopt an aggressive acquisition policy when opportunities arose.

There was no exceptional items - last year's debit was \$489,000 to cover slow moving stock and written-off lease expenses - and there was no extraordinary debit against a corresponding \$239,000 representing the loss on the sale of the Tipton factory.

### BOARD MEETINGS

TODAY	Tomorrow	Jan 21
Midland Bank	Amalgamated Federal Services, Pluton	Dunlop
Wiggins	Wiggins	Wiggins
FUTURE DATES		
Interim	Hamro Currency	Jan 19

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New Issue  
December 1987



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Banca Solaris & Bium S.A.  
Bank in Inns  
Bank of Langnau  
Banque de Dépôts et de Gestion  
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Goldman Sachs Finanz AG  
Manufacturers Hanover (Suisse) S.A.  
Mitsui Trust Finance (Switzerland) Ltd  
Nomura (Switzerland) Ltd  
Shearson Lehman Brothers Finance  
The Industrial Bank of Japan (Switzerland) Ltd  
S.G. Warburg Söditic SA

Banca Commerciale Italiana (Suisse)  
BKA Bank für Kredit und Aussenhandel AG  
Banque Paribas (Suisse) S.A.  
Citicorp Investment Bank (Switzerland)  
Compagnie de Banque et d'Investissements, CBI  
Dresdner Bank (Switzerland) Ltd  
Kreditbank (Suisse) S.A.  
Mitsui Finanz (Schweiz) AG  
Morgan Guaranty (Switzerland) Ltd  
Salomon Brothers Finanz AG  
Sumitomo International Finance AG  
The Royal Bank of Canada (Suisse)  
Yamaichi (Switzerland) Ltd



## FREEGOLD

Extracts from the annual review by Mr E. P. Gush, chairman of Free State Consolidated Gold Mines Limited, administered by Anglo American Corporation

### Results

Freegold's performance over the past year reflects a lower than anticipated gold production which was attributable to several incidents of unrest and a prolonged strike called for by members of the National Union of Mine Workers (NUM). Given these disruptive events, however, the group's results were more than satisfactory.

### Gold

The dollar gold price improved for the second year in succession, and the average price of London fixings for the year ended September 1987 increased to \$429.56 per ounce, from an average of \$347.82 for the previous 12 months. Throughout the year the value of the dollar continued to decline against major currencies, including the rand, which resulted in an average gold price of R28.887 per kilogram for the financial year.

Since the end of the financial year stock markets world-wide have suffered a severe setback resulting in substantial losses for most equities. During this period of turbulence in investment markets the dollar gold price remained relatively strong, experiencing only a limited correction, and has recovered well during late November. Uncertainty in the international money markets is causing investors to reassess the relative attractiveness of all investment options, with gold more recently enjoying far more support.

### Industrial relations

The NUM strike affected all but three of Freegold's 25 shafts, and although the NUM was effective in calling many people out on strike, the evidence of widespread coercion and intimidation before, during and after the strike is cause for great concern.

Both Anglo American and the NUM have stated publicly that they are opposed to violence. Unfortunately, the latter is of the opinion that we are content, with addressing the symptoms and not the root causes of violence on our mines. On the contrary, however, there are many aspects of the present South African socio-political system that are unacceptable. We have made substantial progress in removing discrimination from our operations, but in certain areas Government regulations still override our efforts. We strongly believe that participation in the industrial relations process holds considerable potential to this end, and consequently,

both employers and unions must, by their behaviour, protect and strengthen such structures.

We believe that until employees and leaders are held accountable for human and interpersonal relationships we will not be able to create a constructive environment to meet the future needs of industry, or indeed, South Africa. Accordingly, we have proposed a joint code of conduct with provision for monitoring by an independent party. Management currently operates under a strictly enforced code of conduct and we believe that a clearly defined code, for all employees, will facilitate the elimination of violence on our mines. Hopefully discussions presently under way between the industry and NUM will lead to such a jointly negotiated code.

### Margo commission of enquiry

The Margo report has been issued and numerous discussions have taken place. What emerges, quite clearly, is that the Margo package will have a significant negative impact on the mining industry. In terms of what has been suggested aggregate taxes imposed upon the mining industry will increase what is already a heavy burden. This burden is presently acceptable only because the risks of gold mining in South Africa are matched by the unique tax structure. Unfortunately it appears as if the Margo proposals, far from creating a positive environment for new mining investment, will positively discourage it and, in addition, they will have a negative impact on current operations.

### The year ahead

As Freegold enters its third year of operations we now have a clear picture of our main objectives in the next, and indeed subsequent, years. We anticipate that capital expenditure will increase slightly in the coming year in order to fund both quality of life ventures for our employees and production projects.

In view of our stated objective to move away from the migrant labour system, many of Freegold's black employees have taken advantage of a project that enables them to purchase their own homes.



London office of the Company: 40 Holborn Viaduct, London EC1P 1AJ.







## CURRENCIES, MONEY &amp; CAPITAL MARKETS

## FOREIGN EXCHANGES

## Dollar ends near day's high

THE DOLLAR closed around its highest level of the day in Europe, spurred by buying in early New York trading.

There were no fresh factors, only a mood of uncertainty, as the deal to cut the US budget deficit appeared to be nearing agreement by Congress.

The nervous mood of the market reflected expectations that the Group of Seven would issue a statement once the budget cuts were ratified.

Dealers suspected the US would be unwilling to take strong enough measures to support the dollar and little of any major importance to the market was expected from the G7 statement.

But at the same time markets are very thin at present, winding down ahead of the year-end holidays, and possibly producing marked swings in currency values on any surprising developments.

The dollar opened weak in Europe, but then recovered to finish little changed overall, it rose to DM1.6340 from DM1.6330 and to SF1.3285 from SF1.3280, but was unchanged at Y127.00 and fell to FF5.5225 from FF5.5250.

On Bank of England figures the dollar's exchange rate index rose to 83.4 from 83.3.

STERLING-TRADING range against the dollar in 1987 is 1.5280 to 1.4710. November average 1.4770. Exchange rate index rose 0.1 to 75.6 compared with 75.5 six months ago.

Sterling had a slightly firmer tone, in spite of lower North Sea oil prices. The pound opened a

little stronger against the D-Mark and then kept in line with the West German currency, to close near its lowest level of the day in terms of the dollar.

Sterling began at around \$1.8340, and showed little reaction to the fall of Brent oil to below \$15 a barrel. Oil prices then showed a partial recovery, but the pound lost ground late in the day, finishing only 5 points higher on the day at \$1.8280-1.8270.

The pound rose to DM2.9850 from DM2.9825 and to SF2.4275 from SF2.4225, but was unchanged at FF10.0875 and at Y245.00.

There was some nervousness ahead of this week's most important economic figure, tomorrow's UK trade figures for November. D-MARK-TRADING range against the dollar in 1987 is 1.8280 to 1.6310. November average 1.7770. Exchange rate index rose 0.1 to 146.5 six months ago.

The D-Mark weakened a little against the dollar after a very quiet day in Frankfurt. The dollar's improvement was the result of modest buying around the time of the New York opening. There was also favourable reac-

tion, as far as the dollar was concerned to the comment by a West German Government spokesman that the G7 were planning a joint statement, renewing commitment to economic and currency records.

The dollar rose to DM1.6330 from DM1.6315. Earlier in the day there was no intervention by the Bundesbank when the dollar was fixed at DM1.6293, compared with a record low of DM1.6218 on Friday.

JAPANESE YEN-TRADING range against the dollar in 1987 is 159.45 to 126.20. November average 135.90. Exchange rate index 240.1 against 220.5 six months ago.

The yen was little changed against the dollar in Tokyo, as dealers waited for news about the passage through Congress of the US budget cutting package and any reaction from G7 countries. The dollar touched a low of Y126.50 in Tokyo, before closing at Y126.65, compared with Y126.45 on Friday.

Sentiment surrounding the dollar remained bearish, amid speculation there will be a test of Y125 in the near future, but possibly not before the Christmas holiday.

## EMS EUROPEAN CURRENCY UNIT RATES

	Dec 21	Dec 20	% change	% change	% change
			Dec 21	Dec 20	Dec 21
Belgium	42.492	43.175	+1.70	+0.92	+1.544
France	7.8221	7.8221	0.00	0.00	0.000
Germany	3.350	3.350	0.00	0.00	0.000
Italy	6.9408	6.9408	0.00	0.00	0.000
Netherlands	2.2037	2.2037	0.00	0.00	0.000
Spain	163.33	163.33	0.00	0.00	0.000
UK	1.4833	1.4833	0.00	0.00	0.000

Changes are for Dec 21. Percentage change denotes a week's currency movement.

## POUND SPOT - FORWARD AGAINST THE POUND

	Dec 21	Dec 20	% change	% change	% change
			Dec 21	Dec 20	Dec 21
US	1.8280-1.8270	1.8280-1.8270	0.00	0.00	0.000
Canada	2.3870-2.3860	2.3870-2.3860	0.00	0.00	0.000
France	11.520-11.510	11.520-11.510	0.00	0.00	0.000
Germany	1.4833-1.4833	1.4833-1.4833	0.00	0.00	0.000
Italy	11.520-11.510	11.520-11.510	0.00	0.00	0.000
Netherlands	2.2037-2.2037	2.2037-2.2037	0.00	0.00	0.000
Spain	163.33-163.33	163.33-163.33	0.00	0.00	0.000
UK	1.4833-1.4833	1.4833-1.4833	0.00	0.00	0.000

Forward rates are for Dec 21. Percentage change denotes a week's currency movement.

## DOLLAR SPOT - FORWARD AGAINST THE DOLLAR

	Dec 21	Dec 20	% change	% change	% change
			Dec 21	Dec 20	Dec 21
US	1.8280-1.8270	1.8280-1.8270	0.00	0.00	0.000
Canada	2.3870-2.3860	2.3870-2.3860	0.00	0.00	0.000
France	11.520-11.510	11.520-11.510	0.00	0.00	0.000
Germany	1.4833-1.4833	1.4833-1.4833	0.00	0.00	0.000
Italy	11.520-11.510	11.520-11.510	0.00	0.00	0.000
Netherlands	2.2037-2.2037	2.2037-2.2037	0.00	0.00	0.000
Spain	163.33-163.33	163.33-163.33	0.00	0.00	0.000
UK	1.4833-1.4833	1.4833-1.4833	0.00	0.00	0.000

Forward rates are for Dec 21. Percentage change denotes a week's currency movement.

## CURRENCY RATES

	Dec 21	Dec 20	% change	% change	% change
			Dec 21	Dec 20	Dec 21
US	1.8280-1.8270	1.8280-1.8270	0.00	0.00	0.000
Canada	2.3870-2.3860	2.3870-2.3860	0.00	0.00	0.000
France	11.520-11.510	11.520-11.510	0.00	0.00	0.000
Germany	1.4833-1.4833	1.4833-1.4833	0.00	0.00	0.000
Italy	11.520-11.510	11.520-11.510	0.00	0.00	0.000
Netherlands	2.2037-2.2037	2.2037-2.2037	0.00	0.00	0.000
Spain	163.33-163.33	163.33-163.33	0.00	0.00	0.000
UK	1.4833-1.4833	1.4833-1.4833	0.00	0.00	0.000

Forward rates are for Dec 21. Percentage change denotes a week's currency movement.

## CURRENCY MOVEMENTS

	Dec 21	Dec 20	% change	% change	% change
			Dec 21	Dec 20	Dec 21
US	1.8280-1.8270	1.8280-1.8270	0.00	0.00	0.000
Canada	2.3870-2.3860	2.3870-2.3860	0.00	0.00	0.000
France	11.520-11.510	11.520-11.510	0.00	0.00	0.000
Germany	1.4833-1.4833	1.4833-1.4833	0.00	0.00	0.000
Italy	11.520-11.510	11.520-11.510	0.00	0.00	0.000
Netherlands	2.2037-2.2037	2.2037-2.2037	0.00	0.00	0.000
Spain	163.33-163.33	163.33-163.33	0.00	0.00	0.000
UK	1.4833-1.4833	1.4833-1.4833	0.00	0.00	0.000

Forward rates are for Dec 21. Percentage change denotes a week's currency movement.

## OTHER CURRENCIES

	Dec 21	Dec 20	% change	% change	% change
			Dec 21	Dec 20	Dec 21
US	1.8280-1.8270	1.8280-1.8270	0.00	0.00	0.000
Canada	2.3870-2.3860	2.3870-2.3860	0.00	0.00	0.000
France	11.520-11.510	11.520-11.510	0.00	0.00	0.000
Germany	1.4833-1.4833	1.4833-1.4833	0.00	0.00	0.000
Italy	11.520-11.510	11.520-11.510	0.00	0.00	0.000
Netherlands	2.2037-2.2037	2.2037-2.2037	0.00	0.00	0.000
Spain	163.33-163.33	163.33-163.33	0.00	0.00	0.000
UK	1.4833-1.4833	1.4833-1.4833	0.00	0.00	0.000

Forward rates are for Dec 21. Percentage change denotes a week's currency movement.

## MONEY MARKETS

## Short rates steady

INTEREST RATES remained steady at the short end in money markets yesterday. While views about prospects in the new year tended to differ, dealers remained fairly convinced that the authorities were determined to keep the short end fairly liquid.

Overnight money started at 8 1/4-8 1/2 p.c. and eased to 7 1/2 p.c. before coming back to 8 p.c. Three-month interbank money rose to 9 1/4-9 1/2 p.c. from 9 1/4-9 1/2 p.c., but one year money was quoted at 9 1/4-9 1/2 p.c. compared with 9 1/4-9 1/2 p.c.

UK clearing bank base lending rate 8 1/2 p.c. from December 4

The Bank of England forecast a shortage of around \$1,160m with factors affecting the market including the repayment of late assistance and bills maturing in official hands together with a take up of Treasury bills draining \$776m and the unwinding of previous sale and repurchase agreements a further \$1,037m. In addition Exchequer transactions drained a net \$15m. These were partly offset by a fall in the note circulation of \$380m and banks' balances brought forward \$290m above target.

To help alleviate the shortage, the Bank offered an early round of assistance which resulted in outright purchases of \$10m of eligible bank bills in band 1, \$40m in band 3 and \$50m in band 4, all at 8 1/4 p.c. also

## FINANCIAL FUTURES

## Uncertainty and low volume

TRADING VOLUME was low in the Life market yesterday but some traders stressed that this did not preclude the opportunity to take a position and make a profit.

"If you think a certain thing is going to happen, why wait until the new year when you can take a position now," suggested one dealer. With trading volume in life just over the 1,000 mark, a large order would obviously have a significant effect on prices.

The March gilt price opened at 117.29 and touched a high of 118.12 before closing at 118.02, still up from 117.19 on Friday. Three-month sterling deposits

started at 90.82 for the same delivery date and touched 90.86, where it closed, compared with 90.78 previously.

The biggest problem appeared to be which view to take. With short sterling, one dealer suggested that a March price of 90.86 was high enough to look for a downward movement. With oil prices showing signs of weakness and tomorrow's UK trade figures expected to be less than encouraging, the outlook appeared to be one of disappointment.

Other traders were less bearish but had little to offer as an alternative. Gilt prices were helped to some extent by higher US Treasury

bonds while sterling recovered a little from its worst levels. However after an initial mark up, participation tended to fall away. There was very little reaction after the start of trading in the US and rumblings about a new G7 statement failed to create much of a stir.

Commenting on the low volume, one dealer stressed, "It's difficult to react in this market when you are at home with your feet up."

So for those left in the market, the message appeared to be clear: take a view now and take a gamble, or square up, sign off and come back next year.

## LIFE LINE GILT FUTURES OPTIONS

	Dec 21	Dec 20	% change	% change	% change
			Dec 21	Dec 20	Dec 21
US	1.8280-1.8270	1.8280-1.8270	0.00	0.00	0.000
Canada	2.3870-2.3860	2.3870-2.3860	0.00	0.00	0.000
France	11.520-11.510	11.520-11.510	0.00	0.00	0.000
Germany	1.4833-1.4833	1.4833-1.4833	0.00	0.00	0.000
Italy	11.520-11.510	11.520-11.510	0.00	0.00	0.000
Netherlands	2.2037-2.2037	2.2037-2.2037	0.00	0.00	0.000
Spain	163.33-163.33	163.33-163.33	0.00	0.00	0.000
UK	1.4833-1.4833	1.4833-1.4833	0.00	0.00	0.000

Forward rates are for Dec 21. Percentage change denotes a week's currency movement.

## LIFE LINE TREASURY BOND FUTURES OPTIONS

	Dec 21	Dec 20	% change	% change	% change
			Dec 21	Dec 20	Dec 21
US	1.8280-1.8270	1.8280-1.8270	0.00	0.00	0.000
Canada	2.3870-2.3860	2.3870-2.3860	0.00	0.00	0.000
France	11.520-11.510	11.520-11.510	0.00	0.00	0.000
Germany	1.4833-1.4833	1.4833-1.4833	0.00	0.00	0.000
Italy	11.520-11.510	11.520-11.510	0.00	0.00	0.000
Netherlands	2.2037-2.2037	2.2037-2.2037	0.00	0.00	0.000
Spain	163.33-163.33	163.33-163.33	0.00	0.00	0.000
UK	1.4833-1.4833	1.4833-1.4833	0.00	0.00	0.000

Forward rates are for Dec 21. Percentage change denotes a week's currency movement.

## LIFE LINE FT-SE 100 INDEX FUTURES OPTIONS

	Dec 21	Dec 20	% change	% change	% change
			Dec 21	Dec 20	Dec 21
US	1.8280-1.8270	1.8280-1.8270	0.00	0.00	0.000
Canada	2.3870-2.3860	2.3870-2.3860	0.00	0.00	0.000
France	11.520-11.510	11.520-11.510	0.00	0.00	0.000
Germany	1.4833-1.4833	1.4833-1.4833	0.00	0.00	0.000
Italy	11.520-11.510	11.520-11.510	0.00	0.00	0.000
Netherlands	2.2037-2.2037	2.2037-2.2037	0.00	0.00	0.000
Spain	163.33-163.33	163.33-163.33	0.00	0.00	0.000
UK	1.4833-1.4833	1.4833-1.4833	0.00	0.00	0.000

Forward rates are for Dec 21. Percentage change denotes a week's currency movement.

## LIFE LINE EUROPEAN CURRENCY UNIT RATES

	Dec 21	Dec 20	% change	% change	% change
			Dec 21	Dec 20	Dec 21
US	1.8280-1.8270	1.8280-1.8270	0.00	0.00	0.000
Canada	2.3870-2.3860	2.3870-2.3860	0.00	0.00	0.000
France	11.520-11.510	11.520-11.510	0.00	0.00	0.000
Germany	1.4833-1.4833	1.4833-1.4833	0.00	0.00	0.000
Italy	11.520-11.510	11.520-11.510	0.00	0.00	0.000
Netherlands	2.2037-2.2037	2.2037-2.2037	0.00	0.00	0.000
Spain	163.33-163.33	163.33-163.33	0.00	0.00	0.000
UK	1.4833-1.4833	1.4833-1.4833	0.00	0.00	0.000

Forward rates are for Dec 21. Percentage change denotes a week's currency movement.

## LIFE LINE EUROPEAN CURRENCY UNIT RATES

	Dec 21	Dec 20	% change	% change	% change
			Dec 21	Dec 20	Dec 21
US	1.8280-1.8270	1.8280-1.8270	0.00	0.00	0.000
Canada	2.3870-2.3860	2.3870-2.3860	0.00	0.00	0.000
France	11.520-11.510	11.520-11.510	0.00	0.00	0.000
Germany	1.4833-1.4833	1.4833-1.4833	0.00	0.00	0.000
Italy	11.520-11.510	11.520-11.510	0.00	0.00	0.000
Netherlands	2.2037-2.2037	2.2037-2.2037	0.00	0.00	0.000
Spain	163.33-163.33	163.33-163.33	0.00	0.00	0.000
UK	1.4833-1.4833	1.4833-1.4833	0.00	0.00	0.000

Forward rates are for Dec 21. Percentage change denotes a week's currency movement.

## LIFE LINE EUROPEAN CURRENCY UNIT RATES

ar	91.31	-	-	91.26
an	91.31	-	-	91.06
ac	90.99	-	-	90.89
cc	90.94	-	-	90.89
cc	90.77	-	-	90.72
Estimated Volume 4065(1787)				
Previous day's open int. 25035 (25042)				
<hr/>				
U.S. TREASURY BONDS 8%				
100,000 Scale of 100%				
	Close	High	Low	Prev.
ar	89.49	89.12	89.02	89.29
an	89.25	88.10	87.28	87.26
ac	87.10	-	-	86.31
<hr/>				
Estimated Volume 5102(2680)				
Previous day's open int. 8225 (8689)				



Date	Feb 88		May 88		Aug 88		Stock
	Vol	Last	Vol	Last	Vol	Last	
\$ 480	50	21	-	-	-	-	\$ 479.80
\$ 500	1	10 50	53	22 50	-	-	\$ 479.80
\$ 520	5	6	12	16	-	-	\$ 479.80

		Jan 68	Feb 68	Mar 68		Fl 174.57
EOE Index C	Fl 155	27	21	14	-	Fl 174.57
EOE Index C	Fl 162	27	21	14	-	Fl 174.57
EOE Index C	Fl 170	263	8.32 B	23	15	Fl 174.57
EOE Index C	Fl 175	248	8.32 B	21	13	Fl 174.57
EOE Index C	Fl 181	111	1.10	11	21	Fl 174.57
EOE Index C	Fl 185	96	3.70	49	-	Fl 174.57
EOE Index C	Fl 189	96	3.70	49	-	Fl 174.57
EOE Index C	Fl 192	97	3.70	49	-	Fl 174.57
EOE Index C	Fl 196	97	3.70	49	-	Fl 174.57
EOE Index C	Fl 200	97	3.70	49	-	Fl 174.57
EOE Index C	Fl 204	97	3.70	49	-	Fl 174.57
EOE Index C	Fl 208	97	3.70	49	-	Fl 174.57
EOE Index C	Fl 212	97	3.70	49	-	Fl 174.57
EOE Index C	Fl 216	97	3.70	49	-	Fl 174.57
EOE Index C	Fl 220	97	3.70	49	-	Fl 174.57
EOE Index C	Fl 224	97	3.70	49	-	Fl 174.57
EOE Index C	Fl 228	97	3.70	49	-	Fl 174.57
EOE Index C	Fl 232	97	3.70	49	-	Fl 174.57
EOE Index C	Fl 236	97	3.70	49	-	Fl 174.57
EOE Index C	Fl 240	97	3.70	49	-	Fl 174.57
EOE Index C	Fl 244	97	3.70	49	-	Fl 174.57
EOE Index C	Fl 248	97	3.70	49	-	Fl 174.57
EOE Index C	Fl 252	97	3.70	49	-	Fl 174.57
EOE Index C	Fl 256	97	3.70	49	-	Fl 174.57
EOE Index C	Fl 260	97	3.70	49	-	Fl 174.57
EOE Index C	Fl 264	97	3.70	49	-	Fl 174.57
EOE Index C	Fl 268	97	3.70	49	-	Fl 174.57
EOE Index C	Fl 272	97	3.70	49	-	Fl 174.57
EOE Index C	Fl 276	97	3.70	49	-	Fl 174.57
EOE Index C	Fl 280	97	3.70	49	-	Fl 174.57
EOE Index C	Fl 284	97	3.70	49	-	Fl 174.57
EOE Index C	Fl 288	97	3.70	49	-	Fl 174.57
EOE Index C	Fl 292	97	3.70	49	-	Fl 174.57
EOE Index C	Fl 296	97	3.70	49	-	Fl 174.57
EOE Index C	Fl 300	97	3.70	49	-	Fl 174.57
EOE Index C	Fl 304	97	3.70	49	-	Fl 174.57
EOE Index C	Fl 308	97	3.70	49	-	Fl 174.57
EOE Index C	Fl 312	97	3.70	49	-	Fl 174.57
EOE Index C	Fl 316	97	3.70	49	-	Fl 174.57
EOE Index C	Fl 320	97	3.70	49	-	Fl 174.57
EOE Index C	Fl 324	97	3.70	49	-	Fl 174.57
EOE Index C	Fl 328	97	3.70	49	-	Fl 174.57
EOE Index C	Fl 332	97	3.70	49	-	Fl 174.57
EOE Index C	Fl 336	97	3.70	49	-	Fl 174.57
EOE Index C	Fl 340	97	3.70	49	-	Fl 174.57
EOE Index C	Fl 344	97	3.70	49	-	Fl 174.57
EOE Index C	Fl 348	97	3.70	49	-	Fl 174.57
EOE Index C	Fl 352	97	3.70	49	-	Fl 174.57
EOE Index C	Fl 356	97	3.70	49	-	Fl 174.57
EOE Index C	Fl 360	97	3.70	49	-	Fl 174.57
EOE Index C	Fl 364	97	3.70	49	-	Fl 174.57
EOE Index C	Fl 368	97	3.70	49	-	Fl 174.57
EOE Index C	Fl 372	97	3.70	49	-	Fl 174.57
EOE Index C	Fl 376	97	3.70	49	-	Fl 174.57
EOE Index C	Fl 380	97	3.70	49	-	Fl 174.57
EOE Index C	Fl 384	97	3.70	49	-	Fl 174.57
EOE Index C	Fl 388	97	3.70	49	-	Fl 174.57
EOE Index C	Fl 392	97	3.70	49	-	Fl 174.57
EOE Index C	Fl 396	97	3.70	49	-	Fl 174.57
EOE Index C	Fl 400	97	3.70	49	-	Fl 174.57
EOE Index C	Fl 404	97	3.70	49	-	Fl 1

## BASE LENDING RATES

[illegible]

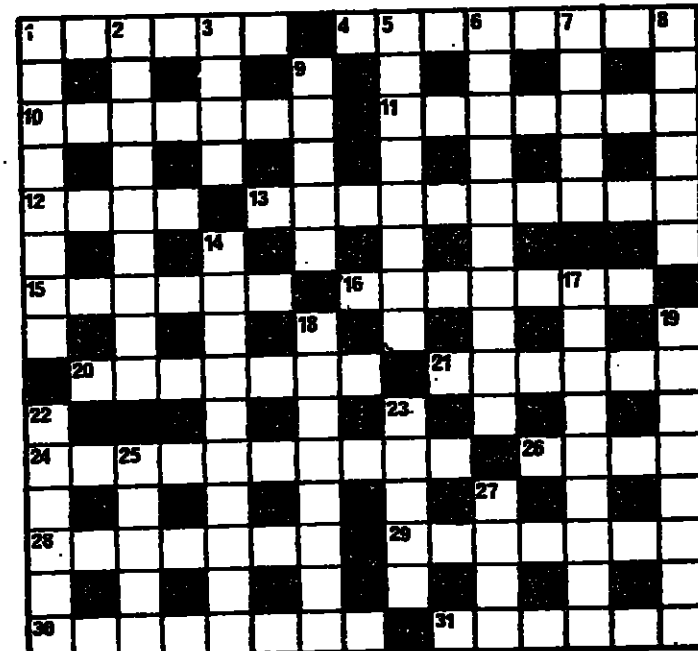
## REGIONAL DEVELOPMENT

The Financial Times proposes to publish a Survey on the above on  
**THURSDAY 28TH JANUARY 1988**  
For a full editorial synopsis and details of available advertisement positions.  
Please contact:

**BRETT TRAFFORD**  
on 01-248-5116  
*or write to him at:*  
**Bracken House, 10 Cannon  
London, EC4P 4BY.  
Telex: 8954871**

**FINANCIAL TIMES**  
**EUROPE'S BUSINESS NEWSPAPER**

**FT CROSSWORD No.6,514**  
SET BY DANTE



### ACROSS

- 1 Mug one may put one's teeth into? (6)
- 2 Vessel that crosses the bar? (8)
- 3 Ravailing suggestion for economy? (7)
- 4 Complex king of Thebes (7)
- 5 Every variety of othe (4)
- 6 "You're not my ladies" (6-4)
- 7 One can't do more than this (8)
- 8 Put some notes in order? (7)
- 9 Outcast, his meal is cooked for him? (7)
- 10 Keen old bird in mountainous surroundings (6)
- 11 Something leaky about in camping equipment - ominous (10)
- 12 Call back (4)
- 13 Just the opposite of prosaic? (7)
- 14 Dash off for coal? (7)
- 15 Train for employment (8)
- 16 Possibly push to conclusion

**DOWN**

- 1 Showing common sense about a habit that arouses intense disgust (8)
- 2 Succeeds in arranging some cover (8)
- 3 Right out of line (4)
- 5 She mingles with the crowd picking out soups (8)
- 6 Agenda - make sure of your Financial Times (5.5)

## AUTHORISED UNIT TRUSTS

[illegible]

**Allied Dental Unit Trusts PLC**

[illegible]

1 King St, Manchester M60 3AH  
 Artwright Grth Dec 15 - 80.5

[illegible]

Barclays Unicorn Ltd (a) (c)  
Unicorn Hse, 252 Rensford Rd,

[illegible]

Can & Foreign Acc	177.0
	* Unapp

[illegible]

**LE** **Y**

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Hackett Hse, Portland So.  
Income Growth ..... 130

**Beckwith Management**  
**The Stock Exchange, London**  
Dealing Co.

Emerging Growth Pl.	53
Fellowship Tpt	55
(Accum Units)	55
Gemini Ltd	58
Ardent Invest	59
Academ Unins	400
Incorpo	122
(Accum Units)	122
Investment	122
(Accum Units)	122
Swirell's Co's	83
(Accum Units)	83

**Barrage Unit Trust Mgmt**  
117 Foresters St, London  
Short Unit Gilt & FT..... 50

[illegible]



**FT UNIT TRUST INFORMATION SERVICE**[illegible]



**FT UNIT TRUST INFORMATION SERVICE**[illegible]



BRITISH FUNDS					BRITISH FUNDS - Contd					FOREIGN BONDS & RAILS				
2087	Stock	Price	Yld	Div	2087	Stock	Price	Yld	Div	2087	Stock	Price	Yld	Div
High	Low		Int. %	Rate	High	Low		Int. %	Rate	High	Low		Int. %	Rate
<b>"Shorts" (Lives up to Five Years)</b>														
0098	100% Term 1988-1994	99.00	7.70	8.47	4094	100% Term 1988-1994	409.00	7.70	8.47	10098	100% Term 1988-1994	1009.00	7.70	8.47
1000	100% Term 1988-1994	1000.00	7.70	8.47	4100	100% Term 1988-1994	4100.00	7.70	8.47	10100	100% Term 1988-1994	10100.00	7.70	8.47
1001	100% Term 1988-1994	1001.00	7.70	8.47	4101	100% Term 1988-1994	4101.00	7.70	8.47	10101	100% Term 1988-1994	10101.00	7.70	8.47
1002	100% Term 1988-1994	1002.00	7.70	8.47	4102	100% Term 1988-1994	4102.00	7.70	8.47	10102	100% Term 1988-1994	10102.00	7.70	8.47
1003	100% Term 1988-1994	1003.00	7.70	8.47	4103	100% Term 1988-1994	4103.00	7.70	8.47	10103	100% Term 1988-1994	10103.00	7.70	8.47
1004	100% Term 1988-1994	1004.00	7.70	8.47	4104	100% Term 1988-1994	4104.00	7.70	8.47	10104	100% Term 1988-1994	10104.00	7.70	8.47
1005	100% Term 1988-1994	1005.00	7.70	8.47	4105	100% Term 1988-1994	4105.00	7.70	8.47	10105	100% Term 1988-1994	10105.00	7.70	8.47
1006	100% Term 1988-1994	1006.00	7.70	8.47	4106	100% Term 1988-1994	4106.00	7.70	8.47	10106	100% Term 1988-1994	10106.00	7.70	8.47
1007	100% Term 1988-1994	1007.00	7.70	8.47	4107	100% Term 1988-1994	4107.00	7.70	8.47	10107	100% Term 1988-1994	10107.00	7.70	8.47
1008	100% Term 1988-1994	1008.00	7.70	8.47	4108	100% Term 1988-1994	4108.00	7.70	8.47	10108	100% Term 1988-1994	10108.00	7.70	8.47
1009	100% Term 1988-1994	1009.00	7.70	8.47	4109	100% Term 1988-1994	4109.00	7.70	8.47	10109	100% Term 1988-1994	10109.00	7.70	8.47
1010	100% Term 1988-1994	1010.00	7.70	8.47	4110	100% Term 1988-1994	4110.00	7.70	8.47	10110	100% Term 1988-1994	10110.00	7.70	8.47
1011	100% Term 1988-1994	1011.00	7.70	8.47	4111	100% Term 1988-1994	4111.00	7.70	8.47	10111	100% Term 1988-1994	10111.00	7.70	8.47
1012	100% Term 1988-1994	1012.00	7.70	8.47	4112	100% Term 1988-1994	4112.00	7.70	8.47	10112	100% Term 1988-1994	10112.00	7.70	8.47
1013	100% Term 1988-1994	1013.00	7.70	8.47	4113	100% Term 1988-1994	4113.00	7.70	8.47	10113	100% Term 1988-1994	10113.00	7.70	8.47
1014	100% Term 1988-1994	1014.00	7.70	8.47	4114	100% Term 1988-1994	4114.00	7.70	8.47	10114	100% Term 1988-1994	10114.00	7.70	8.47
1015	100% Term 1988-1994	1015.00	7.70	8.47	4115	100% Term 1988-1994	4115.00	7.70	8.47	10115	100% Term 1988-1994	10115.00	7.70	8.47
1016	100% Term 1988-1994	1016.00	7.70	8.47	4116	100% Term 1988-1994	4116.00	7.70	8.47	10116	100% Term 1988-1994	10116.00	7.70	8.47
1017	100% Term 1988-1994	1017.00	7.70	8.47	4117	100% Term 1988-1994	4117.00	7.70	8.47	10117	100% Term 1988-1994	10117.00	7.70	8.47
1018	100% Term 1988-1994	1018.00	7.70	8.47	4118	100% Term 1988-1994	4118.00	7.70	8.47	10118	100% Term 1988-1994	10118.00	7.70	8.47
1019	100% Term 1988-1994	1019.00	7.70	8.47	4119	100% Term 1988-1994	4119.00	7.70	8.47	10119	100% Term 1988-1994	10119.00	7.70	8.47
1020	100% Term 1988-1994	1020.00	7.70	8.47	4120	100% Term 1988-1994	4120.00	7.70	8.47	10120	100% Term 1988-1994	10120.00	7.70	8.47
1021	100% Term 1988-1994	1021.00	7.70	8.47	4121	100% Term 1988-1994	4121.00	7.70	8.47	10121	100% Term 1988-1994	10121.00	7.70	8.47
1022	100% Term 1988-1994	1022.00	7.70	8.47	4122	100% Term 1988-1994	4122.00	7.70	8.47	10122	100% Term 1988-1994	10122.00	7.70	8.47
1023	100% Term 1988-1994	1023.00	7.70	8.47	4123	100% Term 1988-1994	4123.00	7.70	8.47	10123	100% Term 1988-1994	10123.00	7.70	8.47
1024	100% Term 1988-1994	1024.00	7.70	8.47	4124	100% Term 1988-1994	4124.00	7.70	8.47	10124	100% Term 1988-1994	10124.00	7.70	8.47
1025	100% Term 1988-1994	1025.00	7.70	8.47	4125	100% Term 1988-1994	4125.00	7.70	8.47	10125	100% Term 1988-1994	10125.00	7.70	8.47
1026	100% Term 1988-1994	1026.00	7.70	8.47	4126	100% Term 1988-1994	4126.00	7.70	8.47	10126	100% Term 1988-1994	10126.00	7.70	8.47
1027	100% Term 1988-1994	1027.00	7.70	8.47	4127	100% Term 1988-1994	4127.00	7.70	8.47	10127	100% Term 1988-1994	10127.00	7.70	8.47
1028	100% Term 1988-1994	1028.00	7.70	8.47	4128	100% Term 1988-1994	4128.00	7.70	8.47	10128	100% Term 1988-1994	10128.00	7.70	8.47
1029	100% Term 1988-1994	1029.00	7.70	8.47	4129	100% Term 1988-1994	4129.00	7.70	8.47	10129	100% Term 1988-1994	10129.00	7.70	8.47
1030	100% Term 1988-1994	1030.00	7.70	8.47	4130	100% Term 1988-1994	4130.00	7.70	8.47	10130	100% Term 1988-1994	10130.00	7.70	8.47
1031	100% Term 1988-1994	1031.00	7.70	8.47	4131	100% Term 1988-1994	4131.00	7.70	8.47	10131	100% Term 1988-1994	10131.00	7.70	8.47
1032	100% Term 1988-1994	1032.00	7.70	8.47	4132	100% Term 1988-1994	4132.00	7.70	8.47	10132	100% Term 1988-1994	10132.00	7.70	8.47
1033	100% Term 1988-1994	1033.00	7.70	8.47	4133	100% Term 1988-1994	4133.00	7.70	8.47	10133	100% Term 1988-1994	10133.00	7.70	8.47
1034	100% Term 1988-1994	1034.00	7.70	8.47	4134	100% Term 1988-1994	4134.00	7.70	8.47	10134	100% Term 1988-1994	10134.00	7.70	8.47
1035	100% Term 1988-1994	1035.00	7.70	8.47	4135	100% Term 1988-1994	4135.00	7.70	8.47	10135	100% Term 1988-1994	10135.00	7.70	8.47
1036	100% Term 1988-1994	1036.00	7.70	8.47	4136	100% Term 1988-1994	4136.00	7.70	8.47	10136	100% Term 1988-1994	10136.00	7.70	8.47
1037	100% Term 1988-1994	1037.00	7.70	8.47	4137	100% Term 1988-1994	4137.00	7.70	8.47	10137	100% Term 1988-1994	10137.00	7.70	8.47
1038	100% Term 1988-1994	1038.00	7.70	8.47	4138	100% Term 1988-1994	4138.00	7.70	8.47	10138	100% Term 1988-1994	10138.00	7.70	8.47
1039	100% Term 1988-1994	1039.00	7.70	8.47	4139	100% Term 1988-1994	4139.00	7.70	8.47	10139	100% Term 1988-1994	10139.00	7.70	8.47
1040	100% Term 1988-1994	1040.00	7.70	8.47	4140	100% Term 1988-1994	4140.00	7.70	8.47	10140	100% Term 1988-1994	10140.00	7.70	8.47
1041	100% Term 1988-1994	1041.00	7.70	8.47	4141	100% Term 1988-1994	4141.00	7.70	8.47	10141	100% Term 1988-1994	10141.00	7.70	8.47
1042	100% Term 1988-1994	1042.00	7.70	8.47	4142	100% Term 1988-1994	4142.00	7.70	8.47	10142	100% Term 1988-1994	10142.00	7.70	8.47
1043	100% Term 1988-1994	1043.00	7.70	8.47	4143	100% Term 1988-1994	4143.00	7.70	8.47	10143	100% Term 1988-1994	10143.00	7.70	8.47
1044	100% Term 1988-1994	1044.00	7.70	8.47	4144	100% Term 1988-1994	4144.00	7.70	8.47	10144	100% Term 1988-1994	10144.00	7.70	8.47
1045	100% Term 1988-1994	1045.00	7.70	8.47	4145	100% Term 1988-1994	4145.00	7.70	8.47	10145	100% Term 1988-1994	10145.00	7.70	8.47
1046	100% Term 1988-1994	1046.00	7.70	8.47	4146	100% Term 1988-1994	4146.00	7.70	8.47	10146	100% Term 1988-1994	10146.00	7.70	8.47
1047	100% Term 1988-1994	1047.00	7.70	8.47	4147	100% Term 1988-1994	4147.00	7.70	8.47	10147	100% Term 1988-1994	10147.00	7.70	8.47
1048	100% Term 1988-1994	1048.00	7.70	8.47	4148	100% Term 1988-1994	4148.00	7.70	8.47	10148	100% Term 1988-1994	10148.00	7.70	8.47
1049	100% Term 1988-1994	1049.00	7.70	8.47	4149	100% Term 1988-1994	4149.00	7.70	8.47	10149	100% Term 1988-1994	10149.00	7.70	8.47
1050	100% Term 1988-1994	1050.00	7.70	8.47	4150	100% Term 1988-1994	4150.00	7.70	8.47	10150	100% Term 1988-1994	10150.00	7.70	8.47
1051	100% Term 1988-1994	1051.00	7.70	8.47	4151	100% Term 1988-1994	4151.00	7.70	8.47	10151	100% Term 1988-1994	10151.00	7.70	8.47
1052	100% Term 1988-1994	1052.00	7.70	8.47	4152	100% Term 1988-1994	4152.00	7.70	8.47	10152	100% Term 1988-1994	10152.00	7.70	8.47
1053	100% Term 1988-1994	1053.00	7.70	8.47	4153	100% Term 1988-1994	4153.00	7.70	8.47	10153	100% Term 1988-1994	10153.00	7.70	8.47
1054	100% Term 1988-1994	1054.00	7.70	8.47	4154	100% Term 1988-1994	4154.00	7.70	8.47	10154	100% Term 1988-1994	10154.00	7.70	8.47
1055	100% Term 1988-1994	1055.00	7.70	8.47	4155	100% Term 1988-1994	4155.00	7.70	8.47	10155	100% Term 1988-1994	10155.00	7.70	8.47
1056	100% Term 1988-1994	1056.00	7.70	8.47	4156	100% Term 1988-1994	4156.00	7.70	8.47	10156	100% Term 1988-1994	10156.00	7.70	8.47
1057	100% Term 1988-1994	1057.00	7.70	8.47	4157	100% Term 1988-1994	4157.00	7.70	8.47	10157	100% Term 1988-1994	10157.00	7.70	8.47
1058	100% Term 1988-1994	1058.00	7.70	8.47	4158	100% Term 1988-1994	4158.00	7.70	8.47	10158	100% Term 1988-1994	10158.00	7.70	8.47
1059	100% Term 1988-1994	1059.00	7.70	8.47	4159	100% Term 1988-1994	4159.00	7.70	8.47	10159	100% Term 1988-1994	10159.00	7.70	8.47
1060	100% Term 1988-1994	1060.00	7.70	8.47	4160	100% Term 1988-1994	4160.00	7.70	8.47	10160	100% Term 1988-1994	10160.00	7.70	8.47
1061	100% Term 1988-1994	1061.00	7.70	8.47	4161	100% Term 1988-1994	4161.00	7.70	8.47	10161	100% Term 1988-1994	10161.00	7.70	8.47
1062	100% Term 1988-1994	1062.00	7.70	8.47	4162	100% Term 1988-1994	4162.00	7.70	8.47	10162	100% Term 1988-1994	10162.00	7.70	8.47
1063	100% Term 1988-1994	1063.00	7.70	8.47	4163	100% Term 1988-1994	4163.00	7.70	8.47	10163	100% Term 1988-1994	10163.00	7.70	8.47
1064	100% Term 1988-1994	1064.00	7.70</											







**MINES – Contd**[illegible][illegible]

50	Beacon House	80			1.22
51	Beacon House	80			1.22
52	Beacon House	80		1.0	1.4
53	Beacon House	80			1.24
54	Beacon House	80			1.24
55	Beacon House	80			1.24
56	Beacon House	80			1.24
57	Beacon House	80			1.24
58	Beacon House	80			1.24
59	Beacon House	80			1.24
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95	Beacon House	80			1.24
96	Beacon House	80			1.24
97	Beacon House	80			1.24
98	Beacon House	80			1.24
99	Beacon House	80			1.24
100	Beacon House	80			1.24

**REGIONAL & IRISH STOCKS**

The following is a selection of Regional and Irish stocks, the latter being quoted in Irish currency.

[illegible]







## WORLD STOCK MARKETS

AUSTRIA				FRANCE				GERMANY (continued)				NETHERLANDS (continued)				SWEDEN (continued)			
Stock	High	Low	Close	Stock	High	Low	Close	Stock	High	Low	Close	Stock	High	Low	Close	Stock	High	Low	Close
Alpine	12.40	12.30	12.35	Alcatel	12.40	12.30	12.35	Alcatel	12.40	12.30	12.35	Alcatel	12.40	12.30	12.35	Alcatel	12.40	12.30	12.35
Alpine	12.40	12.30	12.35	Alcatel	12.40	12.30	12.35	Alcatel	12.40	12.30	12.35	Alcatel	12.40	12.30	12.35	Alcatel	12.40	12.30	12.35
Alpine	12.40	12.30	12.35	Alcatel	12.40	12.30	12.35	Alcatel	12.40	12.30	12.35	Alcatel	12.40	12.30	12.35	Alcatel	12.40	12.30	12.35
Alpine	12.40	12.30	12.35	Alcatel	12.40	12.30	12.35	Alcatel	12.40	12.30	12.35	Alcatel	12.40	12.30	12.35	Alcatel	12.40	12.30	12.35

## CANADA

## TORONTO

Closing prices December 21

Stock	High	Low	Close	Stock	High	Low	Close	Stock	High	Low	Close	Stock	High	Low	Close
Alcatel	12.40	12.30	12.35	Alcatel	12.40	12.30	12.35	Alcatel	12.40	12.30	12.35	Alcatel	12.40	12.30	12.35
Alcatel	12.40	12.30	12.35	Alcatel	12.40	12.30	12.35	Alcatel	12.40	12.30	12.35	Alcatel	12.40	12.30	12.35
Alcatel	12.40	12.30	12.35	Alcatel	12.40	12.30	12.35	Alcatel	12.40	12.30	12.35	Alcatel	12.40	12.30	12.35
Alcatel	12.40	12.30	12.35	Alcatel	12.40	12.30	12.35	Alcatel	12.40	12.30	12.35	Alcatel	12.40	12.30	12.35

## MONTREAL

Closing prices December 21

Stock	High	Low	Close	Stock	High	Low	Close	Stock	High	Low	Close	Stock	High	Low	Close
Alcatel	12.40	12.30	12.35	Alcatel	12.40	12.30	12.35	Alcatel	12.40	12.30	12.35	Alcatel	12.40	12.30	12.35
Alcatel	12.40	12.30	12.35	Alcatel	12.40	12.30	12.35	Alcatel	12.40	12.30	12.35	Alcatel	12.40	12.30	12.35
Alcatel	12.40	12.30	12.35	Alcatel	12.40	12.30	12.35	Alcatel	12.40	12.30	12.35	Alcatel	12.40	12.30	12.35
Alcatel	12.40	12.30	12.35	Alcatel	12.40	12.30	12.35	Alcatel	12.40	12.30	12.35	Alcatel	12.40	12.30	12.35

## OVER-THE-COUNTER

Nasdaq national market, closing prices

Stock	High	Low	Close	Stock	High	Low	Close	Stock	High	Low	Close	Stock	High	Low	Close
Alcatel	12.40	12.30	12.35	Alcatel	12.40	12.30	12.35	Alcatel	12.40	12.30	12.35	Alcatel	12.40	12.30	12.35
Alcatel	12.40	12.30	12.35	Alcatel	12.40	12.30	12.35	Alcatel	12.40	12.30	12.35	Alcatel	12.40	12.30	12.35
Alcatel	12.40	12.30	12.35	Alcatel	12.40	12.30	12.35	Alcatel	12.40	12.30	12.35	Alcatel	12.40	12.30	12.35
Alcatel	12.40	12.30	12.35	Alcatel	12.40	12.30	12.35	Alcatel	12.40	12.30	12.35	Alcatel	12.40	12.30	12.35

## Indices

NEW YORK				DOW JONES				NASDAQ				CANADA			
Index	High	Low	Close	Index	High	Low	Close	Index	High	Low	Close	Index	High	Low	Close
Dow Jones	11,200	11,150	11,175	Dow Jones	11,200	11,150	11,175	Dow Jones	11,200	11,150	11,175	Dow Jones	11,200	11,150	11,175
Dow Jones	11,200	11,150	11,175	Dow Jones	11,200	11,150	11,175	Dow Jones	11,200	11,150	11,175	Dow Jones	11,200	11,150	11,175
Dow Jones	11,200	11,150	11,175	Dow Jones	11,200	11,150	11,175	Dow Jones	11,200	11,150	11,175	Dow Jones	11,200	11,150	11,175

## CHIEF LONDON PRICE CHANGES YESTERDAY

(Prices in pence unless otherwise indicated)

Stock	High	Low	Close	Stock	High	Low	Close	Stock	High	Low	Close	Stock	High	Low	Close
Alcatel	12.40	12.30	12.35	Alcatel	12.40	12.30	12.35	Alcatel	12.40	12.30	12.35	Alcatel	12.40	12.30	12.35
Alcatel	12.40	12.30	12.35	Alcatel	12.40	12.30	12.35	Alcatel	12.40	12.30	12.35	Alcatel	12.40	12.30	12.35
Alcatel	12.40	12.30	12.35	Alcatel	12.40	12.30	12.35	Alcatel	12.40	12.30	12.35	Alcatel	12.40	12.30	12.35
Alcatel	12.40	12.30	12.35	Alcatel	12.40	12.30	12.35	Alcatel	12.40	12.30	12.35	Alcatel	12.40	12.30	12.35

## TOKYO - Most Active Stocks

Monday December 21 1997

Stock	High	Low	Close	Stock	High	Low	Close	Stock	High	Low	Close	Stock	High	Low	Close
Alcatel	12.40	12.30	12.35	Alcatel	12.40	12.30	12.35	Alcatel	12.40	12.30	12.35	Alcatel	12.40	12.30	12.35
Alcatel	12.40	12.30	12.35	Alcatel	12.40	12.30	12.35	Alcatel	12.40	12.30	12.35	Alcatel	12.40	12.30	12.35
Alcatel	12.40	12.30	12.35	Alcatel	12.40	12.30	12.35	Alcatel	12.40	12.30	12.35	Alcatel	12.40	12.30	12.35
Alcatel	12.40	12.30	12.35	Alcatel	12.40	12.30	12.35	Alcatel	12.40	12.30	12.35	Alcatel	12.40	12.30	12.35

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**Continued on Page 37**



## AMEX COMPOSITE CLOSING PRICES

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**Continued on Page 35**



## Dow drifts up as investors hold breath on budget

### Wall Street

CHRISTMAS has begun to take its toll on trading volume and equities drifted without direction or momentum yesterday, writes Janet Bush in New York.

At 2pm, the Dow Jones industrial average stood modestly higher at 1,978.61, up 3.31 from Friday's close. The market is hostage to various major developments expected over the next few days.

The most important of these is the continuing battle to complete legislation of the bill to cut the budget deficit. Yesterday morning, President Reagan said he hoped a final budget accord would be reached by the end of the day.

A statement by the Group of Seven industrial countries on further economic co-operation, news of which boosted the dollar on Friday, depends on the resolution of outstanding disagreements which stand in the way of signing the spending bill.

The dollar traded quietly on currency markets, marginally below Friday's close as a result of the budget continued. The US Treasury bond market was under pressure yesterday after news of a House-Senate conference agreement to increase the Treasury's authority to issue long bonds by \$20bn.

Concern that the limit would not be raised last week, however, boosted the bond market, particularly 30-year issues. However, the agreement on Sunday to raise the limit now means the Treasury should be able to issue a long bond at both its February and May refundings.

The Treasury's benchmark 8.875 per cent 30-year issue was quoted 1/4 point below Friday's close at mid-session yesterday although its yield still held below 9 per cent at 8.976 per cent.

Bonds also dipped after some reconsideration of the implications of an imminent statement by the G7. The market had surged on Friday on hopes that the US is now willing to support the dollar. However, yesterday's bond weakness was evidence that many traders are sceptical that any long-term benefit can be gleaned from a mere reiteration of the Lend Lease accord.

Some retrenchment was to be expected after last week's strong rally which was mostly related to the collapse in crude oil prices. Oil prices were only marginally lower yesterday.

The big corporate news was the settlement between Texaco and Pennzoil, finally reached at the weekend. Texaco dropped 5 1/2 to \$38 3/4 after the announcement it will pay Pennzoil \$3bn to settle their legal dispute. Pennzoil slumped 5 1/2 to \$77 1/2. Standard and Poors, the credit rating agency, put both shares on credit watch, with positive implications, after the settlement.

Dynacor, the electrical contracting company, dropped 5 1/2 to \$16 1/2 after news that the management group which proposed to buy out the company had revised the terms of its offer, making its terms more complex.

British Petroleum shares jumped \$2 1/2 to \$55 after news that the Kuwaiti Investment Office had raised its holding in the company to 16.06 per cent. Atlantic Richfield said, meanwhile, that it had built its stake in British up to 14.7 per cent by the close in London on Friday and had been buying further shares yesterday. ARCO's share price rose 5 1/2 to \$65 1/2.

Among blue chip issues, IBM added 5 1/2 to \$118 1/2, Eastman Kodak was 3 1/2 higher at \$61 1/2 but Procter and Gamble was down 3 1/2 at \$87.

Singer slumped 5 1/2 to \$44 1/2 before the company said discussions with investor Mr Paul Bilzarian and others had led to what it regarded to be a viable takeover proposal. Mr Bilzarian had extended his \$50-a-share offer for Singer until Wednesday.

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David Owen in Toronto reviews the fortunes, falls and footing of shares on three resourceful North American exchanges.

## Canadian markets winter the seasons of change

WHILE many in Toronto's Bay Street financial district will doubtless disagree, Canadian stock markets have actually escaped relatively lightly from the wholesale carnage inflicted since October 19.

The Toronto Stock Exchange's TSE-300 index may have fallen approximately 23 per cent from its all-time high of 4,119 set in August. But it is nonetheless poised to ring out 1987 at a marginally higher level than it rang out 1986. So is the portfolio index at Montreal. Only the composite index at the highly speculative Vancouver Stock Exchange has slumped below its year-ago position - standing about 18 per cent down by December 18.

There appear to be two principal reasons for the compara-

tively robust performance of Canada's two largest exchanges.

The first is the preponderance of resource-related issues, which still account for 25 per cent of overall TSE-300 capitalisation. Despite the crash, the value of the TSE's gold/silver sub-index has risen a hefty 44.5 per cent since the end of last year. Metals and minerals are up almost 31 per cent over the same period. Paper and forest products have slipped in with an increment of about 17 per cent. The only laggard has been the important oil and gas sector, whose value has crept up by a paltry 2.2 per cent. These trends reflect what has been a relatively buoyant year for a selection of previously lacklustre commodities mar-

kets.

In addition, the Canadian markets were bolstered early in the year by a startling upsurge in the rate of foreign investment, particularly from Europe and the US. According to Statistics Canada figures, net foreign investment in Canadian stocks soared to C\$6bn in the first half of 1987 from C\$1.5bn a year earlier. Over the same period, net investment in bonds slumped from C\$2.6bn to C\$4.2bn. More than half the investment came from the US and as much as C\$1.4bn originated in the EEC.

These funds attracted by the positive outlook for resources, first-quarter interest reductions and the perception that Canadian stock markets had tended to lag their global counterparts - helped the TSE-300 begin 1987 in magnificent fettle.

Having ended the year at 3,068, the index hit 3,209 by the end of the first week in January and 3,893 by late March. A further spurt in July and early August pushed it past the magic 4,000 on July 30 and as far as the record 4,119 on August 13. The rest is history. Once the bottom fell out, the market collapsed to the tune of 26 per cent in October, leaving the investment community gasping in disbelief and clutching for superlatives.

However, 1987 would have been a rather unremarkable year for Canadian securities business even without the wild gyrations of the marketplace. The staged deregulation of the domestic financial services

industry got under way on June 30, with the opening up of the domestic securities business. This was followed by a succession of transactions in which major foreign and domestic financial institutions bought into Bay Street investment dealers.

Initially, hopes were high that a still greater level of foreign investment would be attracted by a more internationally-oriented and competitive Canadian equities sector. The peculiarly ill-timed crash promptly nipped such aspirations in the bud. It also sparked retrenchment and a slew of gloomy prognostications for 1988. The chain of buyouts and mergers would in any case have produced a degree of rationalisation, so the argument runs. This pro-

cess will likely be accelerated without the cushion that a bull market would have provided.

A further talking point for much of the year was the TSE debate between proponents of face-to-face and automated trading. Currently, close to half of the total listings on the exchange are handled by its Computer Assisted Trading System (CATS), with the remainder traded by open outcry.

Despite a plethora of studies conducted over the past two years, the controversial subject remains very much of the agenda going into 1988. The TSE recently commissioned a new C\$1.25m study on the subject, which it hopes will identify the most efficient and advantageous way to trade.

### EUROPE

## Frankfurt takes modest lift from upturn in dollar

### London

EUROPEAN investors took cheer from Friday's firmness on Wall Street and a modest rise in the dollar, but gains were slight and trading thin.

FRANKFURT firmed tentatively in subdued and trendless trade, finding some support as the dollar rose from Friday's record low fix. The mid-session Commerzbank Index was 14.6 higher at 1,343.9.

Cars reversed Friday's losses, with Porsche occupying DM10 at its DM20 fall to close at DM20. Daimler adding DM12 to DM61 and BMW rising DM19 to DM472. VW jumped DM5.50 to DM234.

BASF and Bayer also firmed, by DM4.80 to DM251.40 and DM4.30 to DM271.30 in turn, while yellow chemical Hoechst made up DM3.70 to DM250.50.

Banks joined the modest rise, with Deutsche added DM5 to DM413, while Commerzbank added DM4 to DM236.50.

Shareholders, however, had mixed fortunes. Karstadt rose DM5 to DM447 and Herten DM7 to DM163, but Asko and Massa were each DM3 cheaper at DM579 and DM227 in turn.

ZURICH advanced soundly as the dollar firmed, though in a meagre trade. The all-share index added 14.9 to 775.1.

Banks picked up slightly from last week's falls, with Union Bank up SF60 to SF310 and Credit Suisse up SF60 to SF240.

Insurer Swiss Re moved up SF200 to SF12,300 and Wintherturh was SF750 stronger at SF4,875. Adia hardened SF100 to SF5,900. It said growth has been favourable despite the stockmarket decline.

Industrials, though, saw Oerlikon-Buehler dip SF10 against the market to SF570.

BRUSSELS slumped from a bullish opening to end mixed as investors grew pessimistic over

the likelihood of a stable government being formed following the general election. The index closing figures were not available because of computer failure.

PARIS advanced in thin trade dominated by domestic institutions a day before the course advanced on month-end. The CAC opening index was up 6.0 at 287.2.

Elf was a weak exception in otherwise strong blue chips, slipping FR6.20 to FF218.80 on lower oil prices.

AMSTERDAM rose marginally in sedate trade. The CBS tendency index closed 0.6 higher at 86.1.

Nedlloyd attracted particular interest, closing FI 8 higher at FI 125 with blue chips firmer overall. Philips, however, eased FI 1.30 to close at FI 27.60.

MILAN fell overall in dim trade. The MIB index ended 6.0 down at 694.0 despite marginal gains among food, paper and textile issues.

STOCKHOLM marked its fifth successive advance following a midday buying spree. Forestry stocks were among the brightest.

OSLO perked up in a state of bargain hunting. The all-share index rose 4.30 to 248.32.

### ASIA

## Pause in yen's rise prompts gains

### Tokyo

STRONG high-technology and pharmaceutical issues lifted equities moderately in Tokyo yesterday, writes Shigeo Nishizaki of Jiji Press.

The Nikkei average closed 120.87 up at 22,955.94 after slipping 250 during the morning. Turnover was relatively small at 509.31m shares, down from last Friday's 563.35m. Advances outpaced declines by 532 to 342, with 164 issues unchanged.

Major stocks opened firmer on buying prompted by a lull in the yen's appreciation against the US dollar, a lull due in part to the sharp rise in New York stock prices last Friday and progress in Congressional efforts to trim the US budget deficit.

Higher priced stocks in the high-tech sector performed strongly, with Matsushita Electric Industrial setting the pace. Matsushita rose Y80 to Y2,300 on heavy buying triggered by a Nomura Research Institute report that the consumer electronics company would be able to expand profits for fiscal 1988 even at an exchange rate of Y105 to the dollar, its trading volume swelled to 7.31m shares from 2.57m.

Among other high-tech gainers, NEC, Fujitsu and Hitachi surged Y40 each to Y1,960, Y1,230 and Y1,240, respectively.

Conversely, large-capitalisation issues slumped almost across the board. Ishikawajima-Harima-Heavy Industries shed Y1 to Y855 on the largest volume of 47.75m shares, while Kawasaki Steel closed unchanged at Y363.

Smaller-capital issues firmed on speculative buying. Japan Synthetic Rubber gained Y11 to Y911. Tobishima Y60 to Y1,600 and Atsugi Motor Parts Y23 to Y848.

Bonds firmed, although trade was suspended in the morning due to a computer malfunction affecting inter-dealer trading in the half-yearly 5.0 per cent government bond due in December 1997.

TDK climbed Y90 to Y4,720 and Fuji Photo Film Y100 to Y4,050. Nippon Telegraph and Telephone (NTT) jumped Y110,000 to Y2,338m after briefly hitting Y2.40m. The issue was sought largely by bargain hunters as it had tumbled below the Government's second lot selling price of Y2.50m.

Japan Air Lines ended Y300 down at Y13,500 after slipping below the Government selling price of Y13,400 at one stage.

Strong earnings among pharmaceuticals put them in the spotlight. Takeda Chemical Industries strengthened Y70 to Y3,070. Yoshitomi Pharmaceutical Y20 to Y1,360 and Yamanouchi Pharmaceutical Y50 to Y3,980.

Equipment investment-related stocks drew buying interest, aided by the recovery in private capital spending. Yokogawa Electric Industries Y70 to Y1,460. Amada Y70 to Y1,130 and Fanuc Y170 to Y5,390.

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Futures extended last week's gains on buying by life insurance companies and financial institutions related to agriculture and forestry.

The yield on the benchmark bond plunged from last week's 4.560 per cent finish to 4.515 per cent. At one point it hit 4.500 per cent.

On the Osaka Securities Exchange, the OSE Stock Average rallied 121.31 to 23,226.14 on buying of electricals. Volume fell 1.17m to 94,577m shares.

Rohm surged Y260 to Y4,140 and Nichicon Capacitor Y180 to Y1,290, while Sanien Pharmaceutical slumped Y70 to Y1,430.

BUYING dominated what little activity there was in the 30-cent with investors cheered both by stronger base metal prices and New York's strong Friday. The All Ordinaries index ended 10.5 higher at 1,250.7.

News Corp. share among strong industrials with a 30-cent gain to \$10.10, while CSR moved on 11 cents to \$82.98, in strong banks ANZ climbed 12 cents to \$83.85 and Westpac rose

7 cents to \$84.84. Another rise in nickel, aluminium and copper prices put 18 cents on CRA to \$86.14. Golds were mixed on the weaker bullion price.

### Singapore

BRUSHING aside a spell of profit-taking, Singapore share prices closed sharply higher on positive signals from overseas markets. The Straits Times Industrial Index was 34.84 up at \$87.95, a 4.5 per cent rise.

Blue chip gains were paced by a 40-cent rise from Fraser and Neave to \$57.50, while Singapore Airlines rose 25 cents to \$59.15. In banks, DBS added 30 cents to \$59 and OCBC, which said its 50.71m share rights issue was more than 10 per cent oversubscribed, added 15 cents to \$56.35.

### Hong Kong

THE HEAVIEST buying in Hong Kong for a month, notably by local investors, gave a strong boost to share prices. Higher stock index futures and the Friday gain on Wall Street helped underpin the 97.87 rise to 2,276.13.

Banks led generally strong blue chips, with Bank of East Asia up 70 cents at \$318 and Hongkong Bank 40 cents up at \$87.

### SOUTH AFRICA

THE SLIGHT weakening in the bullion price left Johannesburg share prices easier in slack trade as activity slowed before the Christmas and New Year holidays.

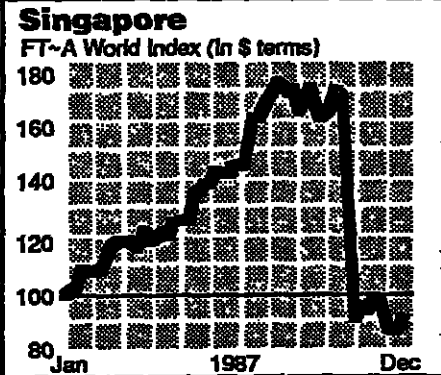
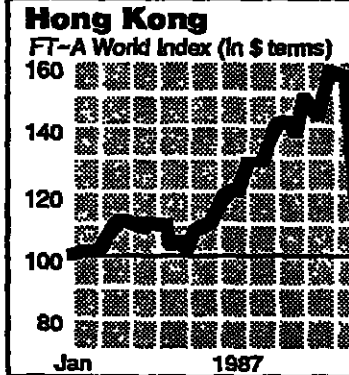
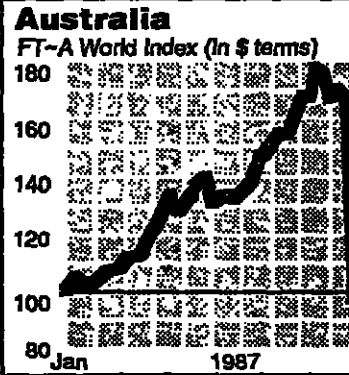
Most gold issues slumped, with heavyweight Vaal Reefs drifting R3 lower to R344 and Harties R1 to R29.75. Mining financials followed suit as Anglo American

shed R1 to R56.50. Elsewhere among mining, platinum share Impala lost 30 cents to R28.50.

Leading diamond stock De Beers gave up 35 cents in sympathy to R30. Other minings were steady.

Industrials ended mixed, with coal-to-oil issue Sasol adding 30 cents to R7.80, but Premier Group losing R1.50 to R34.50.

### THE YEAR IN FOCUS



Jointly compiled by the Financial Times, Goldman Sachs & Co. and Wood Mackenzie & Co. Ltd. in conjunction with the Institute of Actuaries and the Faculty of Actuaries.

### FT - ACTUARIES WORLD INDICES

Jointly compiled by the Financial Times, Goldman Sachs & Co. and Wood Mackenzie & Co. Ltd. in conjunction with the Institute of Actuaries and the Faculty of Actuaries.

NATIONAL AND REGIONAL MARKETS	FRIDAY DECEMBER 18 1987					THURSDAY DECEMBER 17 1987					DOLLAR INDEX		
	US Change Index	Day's Change %	Pound Sterling Index	Local Currency Index	Gross Div. Yield	US Change Index	Pound Sterling Index	Local Currency Index	Gross Div. Yield	1987 High	1987 Low	Year ago (approx)	
Figures in parentheses show number of stocks per grouping													
Australia (88)	96.34	-1.1	78.22	89.80	4.62	97.41	78.68	90.40	100.81	85.36	100.61	85.36	
Austria (16)	96.62	-0.4	78.45	81.87	2.57	96.98	78.34	81.75	102.87	85.53	100.61	85.53	
Belgium (48)	95.54	-0.6	77.58	80.70	5.88	96.14	77.66	81.09	134.89	94.63	100.99	94.63	
Canada (127)	109.82	+1.6	89.16	103.89	3.00	108.13	87.34	102.22	141.78	96.15	100.99	96.15	
Denmark (38)	113.53	+1.0	92.18	103.35	3.07	114.84	92.60	97.45	124.85	98.18	100.99	98.18	
France (121)	84.77	-1.4	68.83	97.18	3.64	86.01	69.47	74.07	121.82	77.39	101.09	77.39	
West Germany (93)	76.15	-1.9	61.83	64.65	2.96	77.63	62.71	65.46	104.93	68.91	95.64	68.91	
Hong Kong (46)	94.38	+1.6	68.51	84.28	6.62	83.07	67.09	82.82	136.68	73.92	95.77	73.92	
Ireland (14)	101.85	+1.6	82.70	88.02	5.17	103.55	83.64	89.10	160.22	93.50	96.52	93.50	
Italy (94)	78.20	-1.5	63.49	70.14	2.75	79.38	64.11	70.72	112.11	72.04	94.22	72.04	
Japan (457)	143.94	-1.2	116.87	115.55	0.61	145.72	117.70	116.25	161.28	100.00	97.78	100.00	
Malaysia (36)	104.46	+2.5	84.99	100.49	3.60	104.13	84.11	99.76	125.64	93.76	99.75	93.76	
Mexico (14)	102.49	-2.9	85.65	263.55	1.14	106.87	87.78	271.49	422.59	96.72	99.77	96.72	
Netherlands (37)	98.76	-0.7	77.75	80.33	5.64	96.42	77.88	80.33	131.41	87.70	97.60	87.70	
New Zealand (20)	90.74	+0.9	61.72	62.54	5.40	75.32	60.84	61.88	138.99	75.04	98.51	75.04	
Norway (24)	96.43	+1.3	78.22	83.70	3.28	97.67	78.89	84.35	185.01	85.21	97.04	85.21	
Singapore (26)	90.74	+0.6	73.67	83.77	2.90	90.20	72.86	83.01	174.28	81.21	101.57	81.21	
South Africa (61)	133.80	-4.0	108.64	92.14	4.81	139.37	112.57	93.04	198.09	100.00	102.37	100.00	
Spain (43)	129.95	-0.2	105.51	108.98	3.86	130.19	105.16	108.64	168.81	100.00	97.22	100.00	
Sweden (34)	90.30	+0.6	79.81	86.29	2.66	97.69	78.89	85.45	136.44	88.50	97.24	88.50	
Switzerland (53)	80.09	-1.4	65.03	63.84	2.94	81.21	65.59	64.30	111.11	73.45	94.83	73.45	
United Kingdom (332)	128.56	+0.2	104.99	104.39	4.48	128.32	103.64	103.64	162.87	99.65	94.27	99.65	
USA (581)	101.30	+2.3	82.25	101.30	3.65	98.99	79.95	98.99	137.42	91.21	103.42	91.21	
Europe (947)	101.86	+0.6	82.70	85.11	3.99	102.44	82.75	85.12	130.02	92.25	95.63	92.25	
Pacific Basin (673)	134.85	+2.2	113.52	107.45	0.83	141.46	114.26	115.98	158.77	100.00	97.85	100.00	
North America (160)	124.77	+2.0	102.22	102.07	0.83	127.45	102.45	102.45	160.45	99.65	94.27	99.65	
North America (708)	124.77	+2.3	82.62	101.47	3.61	99.47	80.34	99.19	137.55	91.68	103.26	91.68	
Europe Ex. UK (215)	85.29	-1.3	69.25	73.20	3.52	86.39	67.78	73.49	111.97	78.89	96.48	78.89	
Pacific Ex. Japan (616)	89.97	-0.0	67.05	94.25	5.20	89.99	72.66	84.60	164.03	82.92	98.76	82.92	
World Ex. USA (1522)	102.49	+1.0	80.33	102.10	3.11	102.49	80.33	102.49	137.42	91.21	103.42	91.21	
World Ex. UK (2342)	114.07	+0.1	92.62	101.63	2.29	113.92	92.90	101.09	138.82	100.00	100.11	100.00	
World Ex. So. Af. (277)	115.23	+0.2	93.56	101.92	2.90	115.02	92.90	101.34	139.47	100.00	99.57	100.00	
World Ex. Japan (1946)	101.66	+1.1	82.54	95.06	3.81	100.55	81.22	93.78	134.22	92.98	100.45	92.98	
The World Index (2403)	115.35	+0.2	93.66	101.88	2.51	115.18	93.03	101.31	139.73	100.00	99.58	100.00	



## SECTION III

FINANCIAL TIMES  
SURVEY

Two events mark a turning point in the affairs of the world's seventh largest economy in output

terms: the expected bilateral free trade agreement with the US, and an accord that will bring Quebec into the federal fold. David Owen reports.

Links to US  
bind tighter

ANOTHER YEAR of calm prosperity for most Canadians is drawing to a close.

Canada's real gross domestic product is estimated to have risen by some 3.5 per cent - its fifth straight year of recovery.

Unemployment continues to decline to about 9 per cent from almost 12 per cent in 1983. And inflation, though on the high side, remains firmly under control at about 4.8 per cent.

Canada, the world's seventh largest economy in terms of output, has had what is in many respects a most eventful year, counterpointed by developments which will leave a deep and far-reaching impression for years to come.

Few will leave a deeper imprint than the so-called Meech Lake accord, which promises to bring Quebec into the federal constitution rejected by the recently-deceased M. René Lévesque and the Parti Québécois in 1982.

The deregulation of financial services, the first stage of which

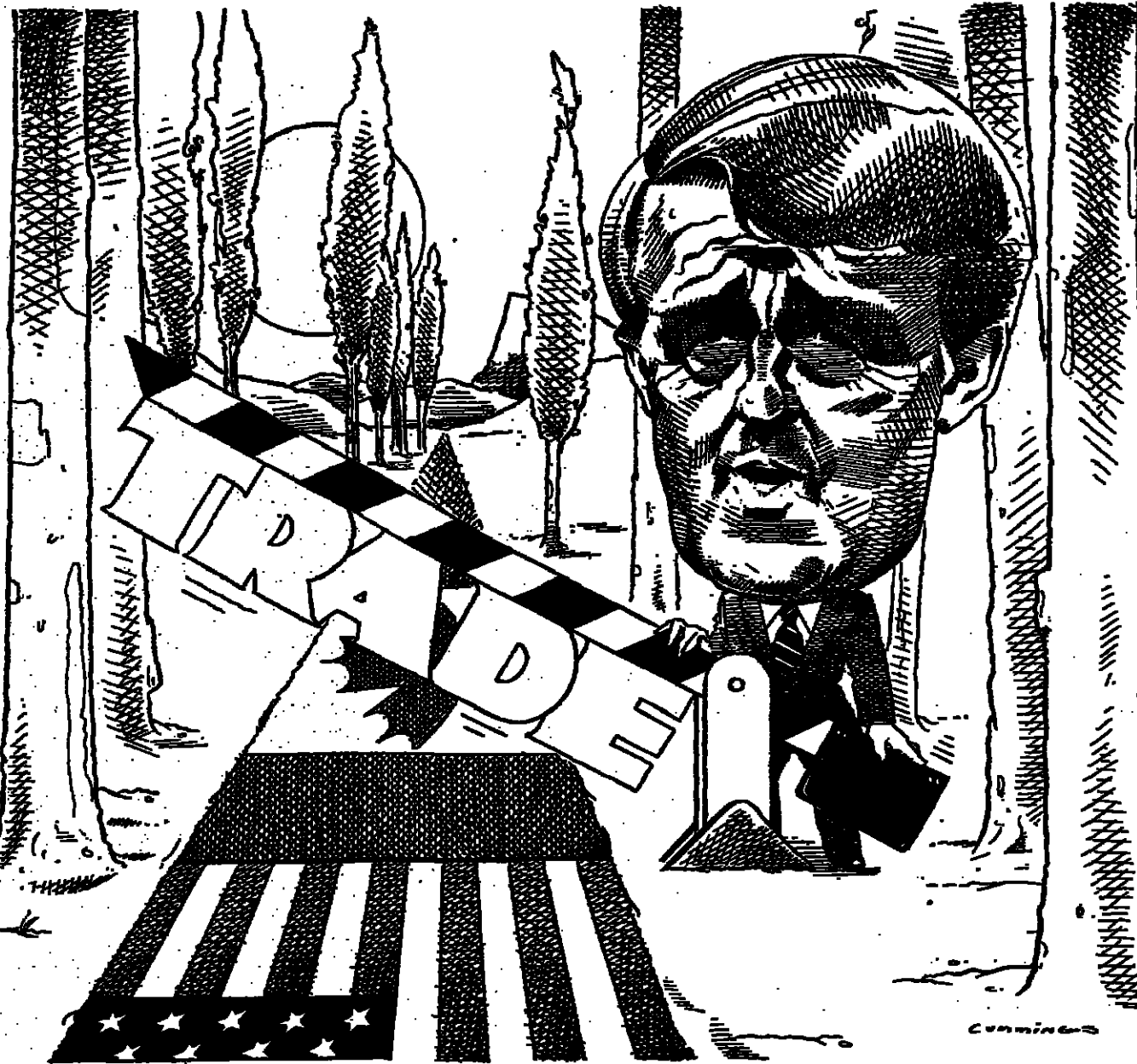
stock market crash raised the spectre of lay-offs and retrenchment in a sector until then awash in the proceeds of a five-year bull market.

Meanwhile, the Dome Petroleum affair has edged sometimes imperceptibly towards a satisfactory conclusion, with the odds now firmly favouring a successful takeover of Canada's largest independent oil and gas producer by US-based Amoco after a sweetening of its initial bid.

Overshadowing everything, of course, even Meech Lake - has been the bilateral free trade agreement initiated by Canadian and US negotiators on October 4, after 17 months of sometimes acrimonious exchanges, and translated into final legal form earlier this month.

The very real political risk taken by Canada's Prime Minister, Mr. Brian Mulroney, in embarking on free trade negotiations underlines the importance of trade to a nation which ships 30 per cent of its gross domestic product to export.

It also indicates the extent to which Canada has lost control of vital aspects of its own economic destiny. The enviable high living standards currently enjoyed by the 25m people who live in this vast, diverse and sparsely-populated country are peculiarly and increasingly dependent on trends and decisions initiated elsewhere.



## Canada

More than three-quarters of all Canadian exports (up from 60 per cent in 1980) are consumed by a single trading partner: the US. This heavy concentration of trade flows has developed despite rather than because of domestic trade policy.

The major driving forces behind it have been sheer geographic closeness and the erosion of Canada's competitiveness in other markets owing to a string of international initiatives beyond its control.

These include the formation and expansion of the EEC and the European Free Trade Association, the system of preferences granted to developing countries and the dismantling of Commonwealth preferences.

This process has propelled the Canadian economy into a state

of ever more inextricable linkage with that of its powerful southern neighbour. Canada's interest rates - though higher than their US counterparts to attract foreign capital and bolster the Canadian dollar - have traditionally marched to the same drummer.

The currency itself, burdened by a federal budget deficit which far outstrips the much-maligned US dollar relative to the size of the two economies, has slumped in the headline post-Black Monday slump of its US cousin.

And the overhaul by Mr. Michael Wilson, the Finance Minister, of Canadian tax laws, which is currently before parliament, is one of a number of initiatives in various countries which are close in thrust to the US reform package of 1986.

It has also meant that when the US protectionist handwagon starts rolling, Canada, excluded from major international trading blocs and without a large domestic market of its own, has little choice but to sit up and take notice.

It was with the aim of mitigating the threat posed to Canadian prosperity by what was perceived as the increasingly aggressive application of US trade law that Mr. Mulroney effectively burnt his boats and decided to embark on negotiations.

While the mood of the country was judged by some to be in favour of an agreement, the need to safeguard security of access to the vast and lucrative US market was, in any case, felt to override worries about the likely political fallout.

By rubbing the free trade lamp - a deed which twice proved the undoing of Liberal leader, Wilfrid Laurier, in the general elections of 1891 and 1911 - Mr. Mulroney has summoned not gentle but the apparently contradictory Canadian shibboleths of self-deprecation, fear and nationalistic fervour, which irresistibly bubble to the surface whenever the status quo is threatened.

The appeals to Canadian gut nationalism being invoked by free trade supporters and opponents alike, risk obscuring some valid reservations regarding the preliminary pact signed on the briefcase of Prime Ministerial chief of staff, Mr. Derek Burney, some eleven weeks ago.

These pertain both to the degree of security of access which Mr. Mulroney's negotiators

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have in fact achieved and the price which they have had to pay to achieve it.

These reservations are examined at greater length elsewhere in the survey. Meanwhile, it is perhaps significant to note that the opposition Liberals and New Democrats alike are marshalling forces to fight a tooth and nail battle against "a bad Mulroney trade deal" rather than the concept of freer US trade per se.

With the trade talks between the US and Canada safely in full flow, Mr. Mulroney retreated into the Gatineau Hills, outside Ottawa, with the ten provincial premiers last April and emerged with the Meech Lake constitutional accord, which brings Quebec into the federal constitution.

The accord, which recognises Quebec as a "distinct society" and decentralises some powers from Ottawa to the provinces, was recently endorsed in resounding fashion by the Conservative-dominated House of Commons. However, the full ratification process is long and complicated and may not be completed for three years.

While the accord has gained multi-party support, due partly to the perceived importance of bringing Quebec into the constitution, it is not without its critics. These include women's and indigenous ethnic minority groups such as North American Indians, who claim that its passage would be a setback for their respective rights, and the Yukon and Northwest Territories, who feel that it will hamper their passage towards full-fledged provincial status.

But the best Meech Lake critic by far is Mr. Pierre Trudeau, the most illustrious of Mr. Mulroney's recent predecessors.

Mr. Trudeau and his supporters within the Liberal ranks maintain that the pact heralds a sea change in the role of the federal government which will circumscribe its ability to establish national programmes in the likes of technology and health and will undermine both the country's international competitiveness and its national spirit.

As the next election, due to be called by September 1989, approaches, Mr. Mulroney has armed himself with the wherewithal to refute claims, however far-fetched, that the two major policy achievements which will probably dominate the campaign - the trade deal and Meech Lake -

will simply lead the country in the first case down the road to glorified statehood or, in the second, to fragmentation.

Last June's defence White Paper committed the Government to an extensive military re-equipment programme to make good the neglect of the Trudeau years, which includes the purchase of a fleet of nuclear-powered submarines.

While there is considerable doubt that the budgeted 2 per cent per annum real hike in overall expenditure (to be supplemented at the Cabinet's discretion by additional funding for certain big ticket items) will be enough to pay for the overhaul, the symbolism is potent and should work in Mr. Mulroney's favour.

In addition, the Prime Minister has lavished money, time and effort to raise Canada's profile on the world stage.

On one level, this has entailed hosting a string of international events, such as Expo '86 and this year's Francophone and Commonwealth summits. If anything the pace will quicken in 1988 with the Calgary Winter Olympics, the chess world title candidates' matches in Saint John, New Brunswick and the Industrial Group of Seven summit in Toronto all scheduled to take place on Canadian soil.

Mr. Mulroney's international initiative has also extended to taking steps to differentiate US and Canadian foreign policy, particularly on Latin America. A recent visit to the region by the External Affairs Minister, Mr. Joe Clark, culminated with the as yet unofficial suggestion that Canadian troops might be sent there as peace-keeping observers.

As the election clock ticks away, the Tories' showings in repeated opinion polls have finally started to pick up from the lacklustre levels recorded during most of this year, although Mr. Mulroney's problem of his own personal credibility is still an increasing cause for concern.

With Mr. John Turner's somewhat revitalised Liberals back at the head of the pack and the NDP's Mr. Ed Broadbent seemingly established as the most popular of the three party leaders, the one thing of which Canadians seem assured when Mr. Mulroney asks them for a second term, is an extremely lively and open three-horse race.

Public support for the ruling party has declined heavily

## Election test for Mulroney

BRIAN MULRONEY has had bitter experience of the sea changes of political opinion. Elected in 1984 on a tide of popularity, he watched his poll ratings ebb within months of arriving at 24 Sussex Drive, the Prime Minister's residence in Ottawa.

Sometime in the next two years, he must test the waters again. Increasingly, the betting is that he will take the plunge early rather than late.

Mr. Mulroney must be grimly aware that the Progressive Conservative Party, like its transatlantic cousin, will not be forgiving of failure.

When John Diefenbaker's government was defeated in 1963, it allowed the Liberals - the party of government for most of this century - to take back what they considered rightfully theirs anyway. Since then apart from a short period in 1978-80, the Grits (Federal Liberals) have held sway in Ottawa for 21 years.

So when the country put Mr. Mulroney into office with 211 of the 282 seats in 1984, reducing the Liberals to a rump, it seemed a unique opportunity. Like Mr. Diefenbaker before him, Mr. Mulroney came to power declaring that the country had voted for change.

Three years after his arrival in Sussex Drive, Mr. Mulroney faces a paradoxical situation. On the one hand, he has some considerable achievements to his name: the constitutional accord with the provinces which brought Quebec in from the cold, a package of tax reform, a defence White Paper, and now, a landmark free-trade agreement with the US. The economy is relatively strong, the public sector deficit is coming under control, and unemployment is on its way down.

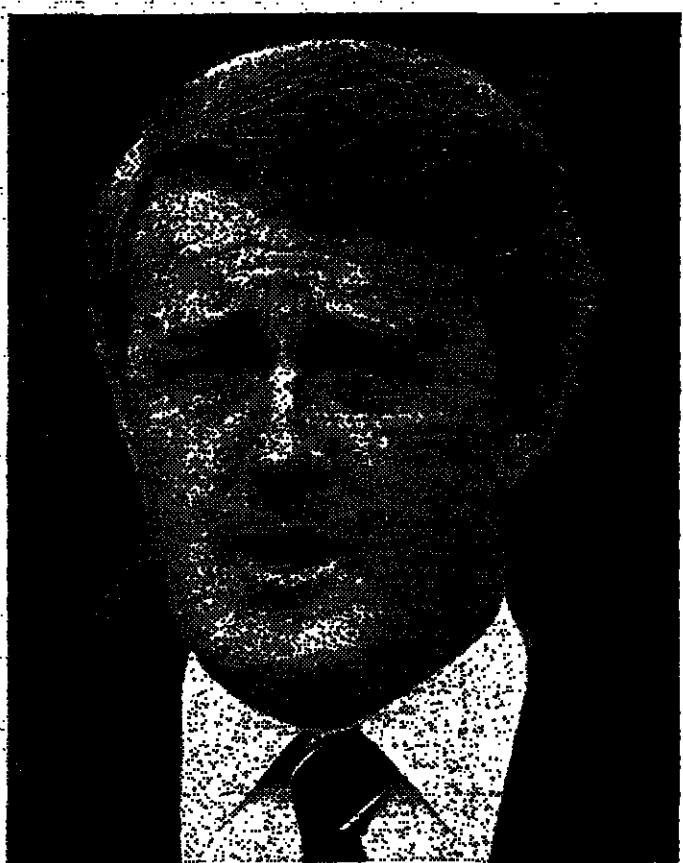
But none of these achievements is reflected in the PC's share of public support, running at around 25 per cent in the last Gallup poll compared to its share of 50 per cent of the popular vote in 1984.

The party has seen a series of by-election defeats and, at provincial level, Conservatives have tumbled like ninepins, most recently in New Brunswick where the Liberals swept the board.

The Conservative administration lacked experience when it entered office and it showed - painfully. The first 18 months were littered with resignations, corruption scandals and accusations of patronage.

Perhaps even more important than the mishaps was the inept manner in which each affair was handled. Those first 18 months hang over the Government like black clouds.

The task before Mr. Mulroney is to correct his public image, pull his poll ratings off



Brian Mulroney saddled with an image

rock-bottom and regroup his forces.

In the Government's view, the central problem is a failure of communication. Mr. Mulroney's achievements have not connected with the man or his government. Despite his achievements, he has failed to convince the people that he has a vision of where the country is going.

"There is a very serious perception problem," says Bill Fox, former Press secretary in the Prime Minister's Office. He says much of the blame at the feet of the "Toronto media mafia" but admits that to some extent the Prime Minister's Office itself has been responsible.

"There was a tendency to assume that the merits of the man would show through," he says, "but they haven't."

Perceptive doubts certainly surround Mr. Mulroney's sincerity and credibility. He is seen as glib, superficial, and too eager to attempt to maximise any public relations advantage.

His achievements tend to appear as manifestations of personal ambition rather than genuine conviction, and he is saddled with the image of a media-obsessed opportunist.

To some extent, he has been lucky. For all the popular dis-

dain for Mr. Mulroney and his breed of progressive conservatism, both of the opposition parties have had serious problems in articulating a clear, electorally credible alternative.

The Grits if anything have faced worse problems than the PCs. Though his party stands at 40 per cent in the polls, Liberal leader John Turner has failed to galvanise public interest and has been unable to pull his party together. It remains deeply split over both the Constitutional Accord and the free trade agreement.

The main beneficiaries of Mulroney's decline have been the NDP. Canada's left-of-centre opposition party with its heart in the Western provinces. Though it has never managed more than 20 per cent of the vote in a general election, the NDP's popular support has soared, to about 33 per cent in the last Gallup poll.

Its policies - anti-Nato, anti-free trade and environmentalism - may cause dyspepsia in Washington and London, but the NDP has at least temporarily caught a wave of public feeling.

Mr. Mulroney's widespread credibility problem and Mr. Turner's inability to create a coherent opposition have left the field open. Mr. Broadbent, who

consistently beats Mr. Turner and Mr. Mulroney in the leadership stakes, has leapt into the breach.

The Conservatives have now started to tackle some of their problems. In the last year, Mr. Mulroney has replaced most of the PMO, in an attempt to manage communications and policy execution more effectively. The new team, headed by Mr. Derek Burney, has won widespread respect.

The Prime Minister has also reshuffled his Cabinet, eliminating some of the more controversial figures and drawing in more representatives from Quebec. But the question remains as to whether Mr. Mulroney can convince the electorate that his policies give the country the right direction as it heads into next decade.

The keynote issue is the free trade agreement, which Conservatives believe will determine the party's electoral fortunes. Free trade has generated enough controversy to crowd out most other issues from the political agenda - at least temporarily. The Government has gone to great pains to identify itself with the agreement, even though much of the momentum began during the last Liberal government. There is a great deal of sentiment, both in the opposition and the Government, to make an election out of it.

An election does not need to be held before September 1990, and it must be tempting for Mr. Mulroney, with his massive majority, to sit it out. But there is pressure on the Government to go early rather than late because of expectations of declining growth and rising unemployment next year.

The electorate is highly volatile, and nobody really knows what the dynamics of an election would be. All the parties can create scenarios where they come out on top. The PCs are aware that free trade is more popular than they are, and would like to profit from it. The opposition, particularly the NDP, would like nothing better than to capitalise on their high poll ratings.

The NDP is clearly aware that they will have problems differentiating themselves from the Liberals over free trade, and that many of their other policies will not hold up under scrutiny. Mr. Mulroney, with a defence White Paper under his belt, would love to get stuck into their anti-Nato stance, for instance.

But it is unlikely that the NDP will get a clearer shot: many in the party are concerned that they have peaked, and that if the Liberals organise, support will start to drift.

Continued on next page

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## CANADA 2

The far-reaching deal between Canada and the US is a predominant theme of national debate, says David Owen

## Misgivings over outcome of free trade pact

ON JANUARY 1, 1989, if all goes to plan, a free trade agreement between Canada and the United States - the world's two largest trading partners - will come into effect which aims to eliminate many of the barriers to trade in goods and services which traditionally have separated the two economies.

The prospect has gone virtually unnoticed in the US, where most eyes have been trained on Iran, the trade and budget deficits and the Gulf.

In Canada, however, the deal is the predominant theme of national debate, with discussion of the far-reaching changes which free trade will wreak seldom far from the front pages.

Since a preliminary transcript of the agreement was initiated by both sides in early October, the parameters of this debate have shifted away from free trade with the US in the abstract towards the specifics of the commitments enshrined in the present deal.

And during the course of these ten weeks, one area of paramount importance to Canadian interests has emerged as the principal focus of Canadian misgivings.

One of the prime reasons, from the Canadian viewpoint, for embarking on the talks in the first place, was the desire of domestic exporters to secure protection from what they perceive as the increasingly aggressive and capricious application of US trade law against foreign suppliers.

Thus the establishment of an impartial mechanism for settling anti-dumping and countervailing duty-related disputes has been a fundamental Canadian objective

from the outset.

What the negotiators have come up with is the recommendation that a bi-national panel should be set up to review such disputes.

However, the panel's mandate will extend only to assessing whether or not trade actions taken by either side are in accordance with existing law. The matter of actually amending laws will be considered over a five to seven-year period in a separate bilateral process.

The question of the degree of

that on the whole the tribunal will be effective and two that, on the whole, it will not.

Two further areas of the agreement, which includes commitments to phase out most bilateral tariffs within ten years, to eliminate Canadian import licences for wheat, barley and oats when support levels in the two countries are equivalent, and to allow Canadian banks to underwrite Canadian government securities in the US, have proved particularly controversial in Canada.

**The onus is on the pact's critics to propose a realistic alternative which would not risk a fairly substantial decline in living standards**

protection which this process will provide has now become the epicentre of the trade debate in Canada.

Defenders of the deal, like one senior government spokesman, believe that the powers of the panel would put "some extremely formidable hurdles in the way of harassing actions." Opponents, like the Liberal MP Mr Brian Tobin, describe the tribunal as "a shell, a farce" whose "only function is to determine that US law, once written, has been properly applied."

A final assessment will probably have to wait until the definitive legal text of the agreement is completed about six weeks behind schedule on December 7 - has been fully analysed.

Meanwhile, the question of the panel's likely effectiveness has divided even the legal profession. Of four law firms which have so far offered opinions on the subject, two have concluded

First, on the sensitive subject of US investment, Canada has undertaken to raise its threshold for screening a direct acquisition of a domestic firm by a US investor over a four-year period to companies with assets of C\$150m.

In addition, Canada is to phase out its scrutiny of indirect takeovers, where a US subsidiary in Canada changes hands because of a takeover of its parent company, also over four years.

Second, the two sides have agreed to the creation of a North American continental energy market whereby Canada will receive assured market access to the US in return for providing a secure energy supply in times of shortage.

This will entail treating US customers as Canadians. However, Canada will be free to proceed towards its objective of 51 per cent domestic ownership of the energy sector.

For the moment then, the preliminary transcript has given impetus to the opponents' cause by furnishing them with a number of specific targets to shoot at.

Its existence has enabled both opposition parties to take stances unequivocally against what one spokesman described as "a bad Mulroney trade deal" without being cast as enemies of free trade.

In the longer run, however, no matter how many holes can be picked in the Mulroney deal, the onus is on the pact's critics to propose a realistic alternative which would not risk a fairly substantial decline in living standards should the protectionist handwagon gain more ground.

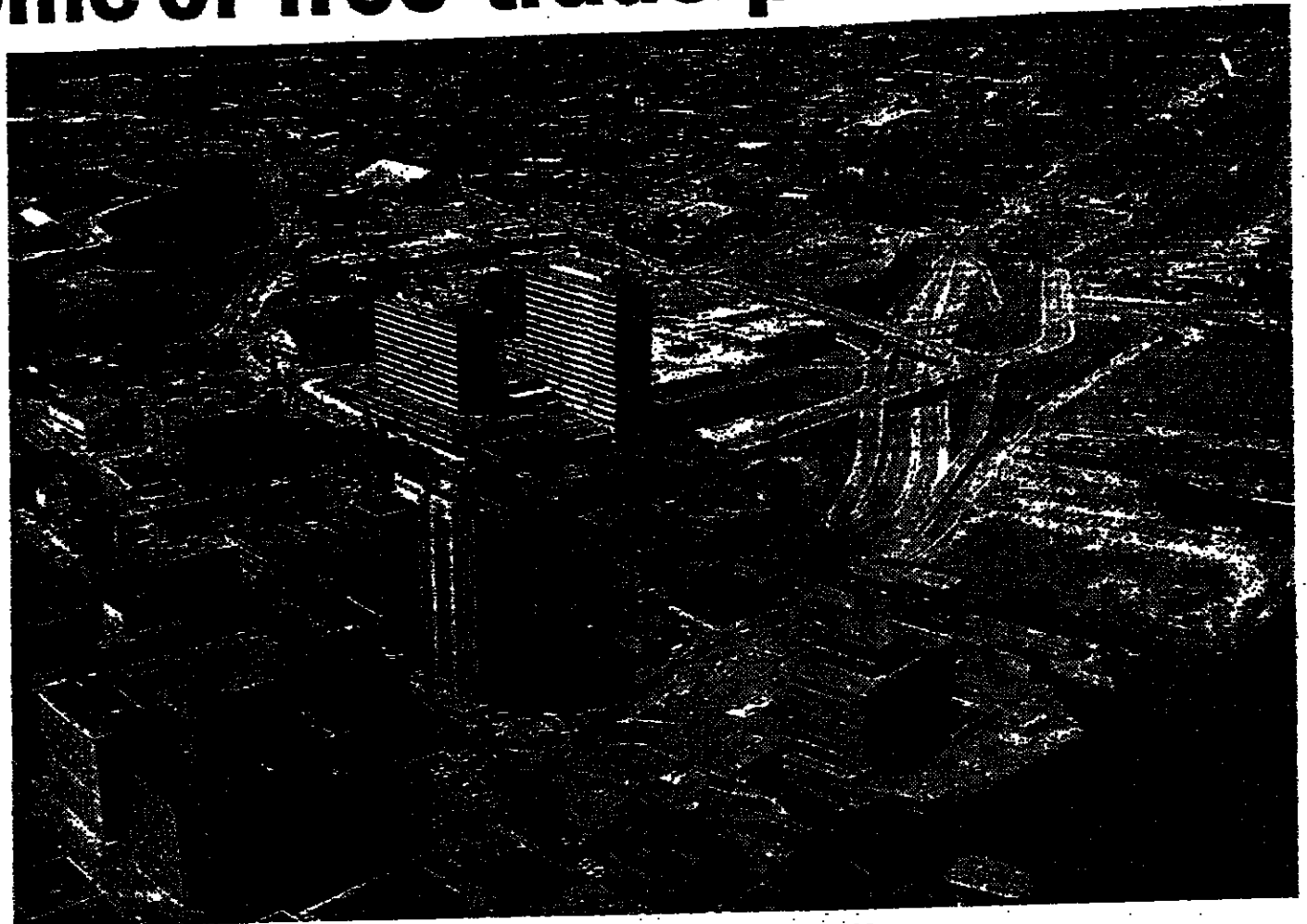
Thanks to its own enterprise and its relatively small domestic market, Canada is heavily dependent on foreign trade; about 30 per cent of gross domestic product goes to export.

But of that 30 per cent, no less than 77 per cent these days is sold to a single country: the US.

This proportion has tended to increase in recent years, despite initiatives aimed at diversifying trade flows, like the so-called Third Option, formulated in response to tough protectionist measures introduced by the Nixon administration in 1971.

Clearly, Canada - a nation without guaranteed access to other major markets or trading blocs - risks souring that trading relationship at its peril.

In other words, despite the shortcomings of the deal that has been struck, Canadians need to think very carefully about the vulnerability of their trade-related income before they try to derail it.



Halifax, Nova Scotia - the provinces are keeping a close eye on 'Mulroney's trade deal.'

The economic boom has been weakened by lower personal savings

## Bid to hold inflation and cheer the dollar

CANADA'S economy began showing signs of exhaustion even before October's stock market crash.

The cracking pace from 1984 to mid-1987 - a period during which real gross domestic product has climbed by an average 5 per cent a year - could not be sustained much longer.

The two mainstays of the boom - consumer spending and housing - have been weakened by a sharp decline in personal savings (now at their lowest level in 15 years), by last spring's shift in interest rates and by a surge in the supply of new housing.

Growth in GDP is expected to slow from an annualised 6 per cent in the first half of this year to 2.5 per cent or less in 1988. Housing starts, which reached an annualised record of 281,000 units last August, are likely to fall back below 200,000 next year. GDP growth had already slipped back to an annualised 4.4 per cent in the third quarter of 1987.

The impact of the stock market crash is still hard to assess. Although most economists have slightly lowered their 1988 forecasts, hopes are still high that the Bank of Canada's efforts to sustain growth by relaxing monetary policy will offset the stock market's blow.

Banks' prime lending rate, which rose from 8.75 to 10.5 per cent between March and mid-October, dropped back to 8.75 per cent in the weeks following the crash.

Like its counterparts elsewhere, the Bank of Canada faces the dilemma of whether to risk higher inflation by keeping a loose rein on the money supply, or face slower growth by tightening liquidity and raising interest rates again.

The rise in interest rates earlier this year was sparked by concern that inflation was starting to creep up. The rise in the consumer price index accelerated from 4 per cent in the first quarter of this year (compared to the same period in 1986) to 4.6 per cent between April and June.

Signs of an overheated economy became visible earlier this year in southern Ontario and Quebec, where growth has been even higher than the national average. Shortages of skilled construction workers and building materials have helped fuel a sharp rise in housing costs.

With Ontario enjoying an unemployment rate of about 6 per cent (compared to the



Operator in a steel mill. Upward wage pressure threatens price stability.

The federal budget <sup>1</sup>			
Percentage change			
	1986/1987	1987/1988	
	Estimated <sup>2</sup>	Estimated outcome <sup>3</sup>	Estimated <sup>4</sup>
Direct taxes			
Persons	10.1	14.8	9.4
Corporations	8.5	14.0	10.3
Indirect taxes	12.7	18.5	11.1
Investment income	1.5	3.8	5.7
Transfers from other levels of government			
Other <sup>5</sup>	15.7	7.9	5.2
Revenue	9.8	10.1	9.4
Current consumption	6.5	4.2	4.4
Capital formation	-16.8	-2.0	-6.9
Transfers to persons	5.7	7.3	4.6
Debt interest	7.3	7.4	3.6
Subsidies	-2.7	3.9	30.2
Transfers to other levels of government	3.8	5.0	8.2
Other <sup>5</sup>	-1.5	-0.8	-13.2
Total expenditure	4.7	5.6	5.3
Surplus (+), deficit (-)	-23.2	-26.1	-23.6
As per cent of GDP	-4.8	-5.1	-4.4

1. National accounts basis, fiscal years April to end-March.  
2. According to February 1988 Budget.  
3. According to February 1987 Budget.  
4. Including tax transfers to non-residents, other current transfers from persons and capital consumption allowances.  
5. Capital assistance and current transfers to non-residents.

Source: Department of Finance, The Fiscal Plan, February 1986 and February 1987.

capital inflow in the first six months of 1987.

The outlook for the dollar depends partly on further progress in cutting the federal government's budget deficit, which is much higher than that in the US relative to the size of the two economies.

Although Mr Michael Wilson, the Finance Minister, has trimmed the deficit from C\$38.3 bn when the Tories took office in 1984 to a target of C\$29.3 bn in the fiscal year ending next March 31, pressure to loosen the purse strings is bound to rise as the economy slows and the next general election draws nearer.

In particular, several large defence contracts are in the offing. Mr Wilson has promised that a sweeping package of tax reforms outlined earlier this year will be neutral in terms of total government revenues. The politically sensitive reforms aim to offset cuts in personal tax rates with a broader corporate tax base and a new broad-based national sales tax.

The proposals include a cut in the top marginal rate for individuals from 34 per cent to 29 per cent, but eliminate several tax shelters for both individual and corporate taxpayers.

Having spent the past six months canvassing views on his proposals from a wide range of interest groups and from two

parliamentary committees, Mr Wilson's final package may differ somewhat from his original plans.

One encouraging development in the economic outlook for 1988 is the prospect of more balanced growth across the country. The drop in oil prices in 1985 and the weak international grain market have severely depressed the Alberta and Saskatchewan economies.

Alberta's output is expected to shrink by more than 1 per cent this year. Meanwhile, Quebec and Ontario have been expanding by more than 5 per cent a year.

The gap is likely to narrow thanks to the one hand to the impact of higher energy prices and generous tax concessions to the western oil and gas industry, and on the other to the expected slowdown in the automotive and housing industries and in consumer spending in the two central provinces.

The Conference Board of Canada predicts a fairly narrow gap in provincial growth rates next year, ranging from a low of 1.7 per cent on Prince Edward Island to a high of 3.4 per cent in Alberta.

Bernard Simon is Business Editor of the Financial Post of Canada.



Profile: Robert Bourassa

## Reading the mood

QUEBEC'S PREMIER, Robert Bourassa, can look back on his 21 years in politics with some satisfaction.

His government is starting the third year of its mandate with a 57 per cent popularity rating and the Opposition Parti Quebecois in disarray.

Yet only eleven years ago Mr Bourassa, 64, was left for dead by his colleagues as the Quebec Liberals went down to defeat by the separatist PQ. He immediately took off to study the European Economic Community and later lectured in the United States.

Many had blamed him for the cost overruns of the 1976 Olympics in Montreal, the impossible demands of the Quebec labour unions, and language problems. But Canada was part of the inflationary post-1973 energy crisis world.

Mr Bourassa was often indecisive, and even vacillating, as he

tried to create consensus, but much of what happened was far beyond the control of any provincial premier.

His passion for politics undiminished, Mr Bourassa kept his home and his political connections in Montreal after the 1976 defeat. He returned to the political stage in the early 1980s as the PQ government bogged down in constitutional wrangling and the disastrous impact of the 1982-83 recession.

In 1985 he recaptured the Quebec Liberal leadership and worked ceaselessly to rebuild its electoral base and its image as the party of sound economic management.

Many Quebec Liberals did not really want him back, saying he was a loser in 1976, but Mr Bourassa correctly read the mood of the times before the provincial elections of December 1985. The voters wanted better government

and more economic growth.

The Liberals swept in with 99 seats out of 122 in the National Assembly, and the victory was largely Mr Bourassa's. Not only did he win the Anglophone vote despite suspicions of being soft on language equality, but he also won a clear majority of the Francophone vote.

The PQ could no longer say the Liberals were *vendus* and the party of the Anglos.

Mr Bourassa - slightly built, studious in manner and master of repartee, but no orator - entered politics in 1966, won the Liberal leadership in 1970 and his first election the same year. At 37 he was the youngest ever premier of Quebec.

He promised to ensure a decade of growth with the C\$14.6bn James Bay hydro project in the north. Within months through Quebec was plunged into a separatist crisis with the kid-



Robert Bourassa: ambition

napping of the British diplomat James Cross.

The Front de Liberation du Quebec numbered only 26 serious terrorists but the crisis led to the imposition of the controversial War Measures Act by the Federal Prime Minister, Pierre Trudeau.

Mr Bourassa comes from a middle class Francophone background in Montreal and his father was a federal civil servant. He studied at the universities of Montreal and Harvard and holds degrees in law and economics. He married into the wealthy Simard shipbuilding family and his son Francois is an accomplished jazz pianist and composer.

He swims 20 pool lengths daily whether in Quebec City, Montreal, Washington or Paris. He prefers baseball to ice hockey and is an addicted student of the media.

His ambition is to retain a strong voice for Quebec in the Canadian Federation and in North America by a careful balance of political autonomy and economic cooperation. And he dreams of a second James Bay hydro project, based on the export of power to the United States and Ontario.

Robert Gibbons

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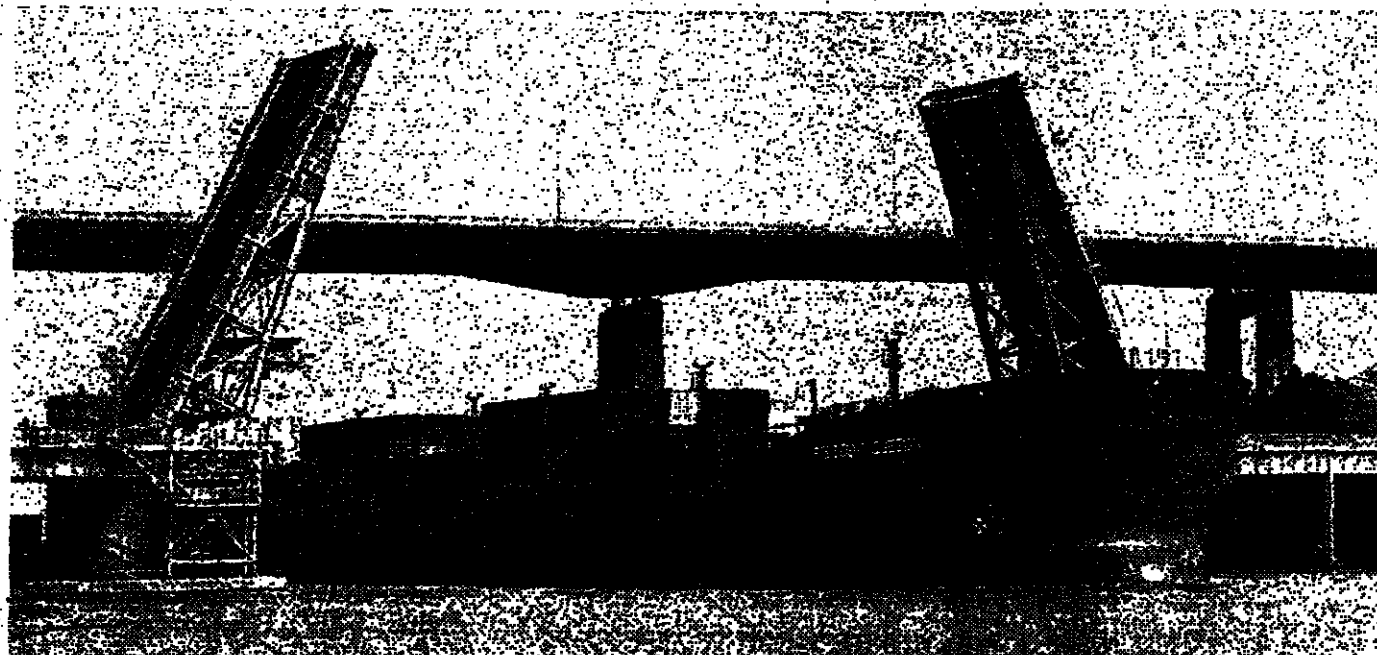
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Overseas capital is now being attracted

## Tide turns as inflows rise and barriers fall



Container ship on the Welland Canal of the St Lawrence Seaway, Ontario

THIS COULD well be a record year for foreign direct investment (FDI) in Canada. After a lean period, the combination of strong growth and a more internationalist government in Ottawa has made the country an attractive location for overseas capital.

The newly-negotiated Free Trade agreement with the US should keep it rolling in. The investment outlook has improved immeasurably from the early 1980s. Then, stringent government restrictions imposed through the National Energy Policy and the Foreign Investment Review Agency, the government watchdog, led to foreign capital being repatriated faster than it arrived.

In 1981, gross inflows of capital amounted to C\$4.8bn, a record figure, but gross outflows, concentrated in the petroleum and natural gas sector, reached a high point of C\$9.2bn.

The situation has returned to normal only in the last two years. In 1986, gross inflows reached C\$7.5bn, giving a net foreign direct investment figure of C\$1.5bn after deducting outflows. Gross inflows for the first half of this year were C\$9.96bn, nearly double the figures for the same period of 1986, and outflows were only C\$1.2bn against C\$1.5bn.

The increase in investment since 1984 has been spread across most sectors, with manufacturing playing a proportionately larger role than it did in the 1970s.

Finance has been the most notable growth area as Canada has liberalised its securities industry. Ontario has completely deregulated its financial sector.

Large disinvestments in the petroleum and mining sectors in 1985 and 1986 made net inflows in this sector negative, but capital has started to flow back again this year.

Mr Mulroney's government can take some of the credit for turning the tide. The economy looks substantially stronger than when he arrived, and some progress has been made in tackling the fiscal deficit.

The Progressive Conservatives came into office declaring the country "open for business" again after the long years of liberal rule, and now good news promises by disbanding much of the apparatus for restricting foreign investment.

But the trend towards liberalisation had begun earlier. FIRA, as its peak in 1981-2 under arch-nationalist Herb Gray, it had become largely a rubber stamp by 1984.

As their first legislative act, the Conservative government replaced FIRA with a new agency, Investment Canada. The agency has a lower review threshold, a less harsh test for new foreign investment, and fewer powers to prevent foreign acquisitions or to impose conditions upon companies entering the country.

It also has a broader role. "Most of our resources are spent attracting investment," says Mr Paul Labbe, IC's President. The Free Trade agreement should prove a considerable stimulus to overseas investment, he says. The country's trump card for overseas investors has always been its easy access to the US.

After January 1989, that will be guaranteed, and there effectively will be one single North American market for most products, broken down by regional distinctions rather than national trade barriers.

As its neighbour threatens to become more protectionist, Canada has bought itself guaranteed right of entry. The back door is wide open, says Alan Rugman, Professor of Economics at Toronto University. The agreement also provides for national treatment of US investment in Canada, and will progressively increase the threshold for review of US investment.

This is a considerable step for a country where economic nationalism has been more or less firmly entrenched since Walter Gordon held the Finance portfolio in Lester B. Pearson's 1960s government.

Through there are exceptions - energy and the cultural industries, for instance - most manufacturing sectors are now open to US investors. The Agreement also provides for greater freedom of movement across the border for business purposes, thus making trade in services considerably easier.

However, it is unlikely to herald a new era of US investment. "Just as noted above, the Canadian investment regime has already been considerably liberalised in the last three years. Investment Canada has not turned down a single application since its birth in 1985."

Second, US foreign direct investment in all countries has slowed considerably in the last decade. Investment in Canada, which turned sharply negative in 1981 and 1982 and again in 1985 and 1986, has only picked up slowly from its trough.

The US is now a major recipient of investment, including significant flows from Canada. This

trend is more a matter of US economics than Canadian politics. Though the US is still by far the largest investor in the country, its share of total foreign ownership has fallen from 80 per cent in the mid-1970s to 75 per cent in 1986. Its share of gross capital inflows, which stood at 76 per cent in 1975, fell to 60 per cent in 1983, and has since stabilised around 65 per cent.

Indeed, whereas in the 1970s US companies buying amounts of Canadian capital became a burning political issue, the concern now is that the process will reverse. Workers in the branch plants of Ontario fear that as trade barriers are lifted, US manufacturers will substitute exports for investment, and take more of their capital home.

Mr Labbe says that Canada's national advantages in energy and labour costs should keep American branch plants in the country. Many now have their own specialised production runs, he argues, and it would not be cost effective to close them down to re-site production south of the border.

Alan Rugman also doubts that the process will go as far as a full-scale retreat, arguing that other benefits of FDI - principally reductions in transaction costs - will continue to stimulate investment. Sunk costs should deter removal of existing plants.

Moreover, the agreement, by stimulating economic growth through trade, should give some momentum to US FDI, he says.

But both Mr Labbe and Mr Rugman see US investment declining in significance, albeit slowly. They accept that Canada must increasingly look to other countries - principally the UK and France, but also Japan and Hong Kong. These countries have all increased investment in Canada.

The first main area of concern for overseas investors is essentially economic: given that the North American market is crucial to most manufacturers, is Canada the right entry point?

Though the country has its own unique mix of assets, some of these - such as low wages and a favourable exchange rate in relation to the US - may be eroded by the long-term effects of the Free Trade agreement. But the unique access to resources and energy the country provides, as well as its geographical positioning, should ensure a steady flow of capital.

The second issue is political. After the experience of the 1970s, investors inevitably approach Canada with some caution. Many have reservations

about how deep the country's new-found commitment to liberalisation of investment runs. Though Investment Canada has never turned an application down, "it's certainly not a rubber stamp process," says Mr Labbe, adding darkly that he knows of "a number of cases that have been discussed but have not come forward."

In a survey by the EMF Foundation last year, Canada rose from seventh position to sixth on a competitiveness ranking reflecting its more open policies as well as the improved economic outlook. But it is notable that the country ranked only twelfth out of 22 for "outward orientation."

The country's legacy of economic nationalism, and the fear about foreign investment, will die easily, Mr Labbe has a strong interest in the type of investor he prefers to encourage. For instance, "companies that are technologically intensive, that are developing, emerging."

As the quiet pro quo for access to the US market, Canada expects to become more than a network of branch plants, warehouses and resource extraction. One critical area of concern is the energy sector, where the Government's target is still to achieve 61 per cent domestic ownership. Though this currently stands at about 48 per cent - up from about 8 per cent at its low point - the process will be set back by Amoco's acquisition of Dome.

As British Gas found this year, Canada maintains its sensitivity about foreign acquisitions of energy companies. The company, which tried to buy a 51 per cent stake in Bow Valley, a Calgary-based oil and gas concern, found itself blocked by the Canadian government, though not formally rejected by Investment Canada.

Canadian legislation does not allow foreign companies to take over domestic energy companies unless they are in financial trouble. British Gas withdrew its bid, which may be resubmitted later on different terms.

In these circumstances, there must inevitably be some lingering doubt about how far the commitment to openness goes. Moreover, Mr Mulroney's pro-business opinions are decidedly not shared by the opposition NDP, and by only one section of the Liberals.

Electoral failure for the PCs may reverse much of the progress made in the last three years.

Andrew Marshall

Profile: Allan Taylor

## Baptism of fire to improve profits

WHEN IT COMES to maintaining a high public profile, Mr Allan Taylor, Royal Bank of Canada's chairman, is no match for either Mr Rowland Frazee, his immediate predecessor, or Mr William Mulholland of rival Bank of Montreal.

In May 1983, on becoming the bank's president, Mr Taylor was described as "low-key even within his own company." Three years later, on succeeding Mr Frazee, a magazine article designed to mark the event ran: "Mr Taylor's name beneath a likeness of Mr Frank Lamont, a prominent securities company executive. 'That's what I call financial industry restructuring,'" Mr Taylor quipped at the time.

Since then, the 55-year-old native of Saskatchewan, has endured something of a baptism of fire in his bid to improve the static post-1983 profit record of Canada's largest financial institution.

Specific retrenchment moves have included a spate of lay-offs among head office and regional headquarters staff, the closure or restructuring of several overseas operations, the withdrawal of Orion Royal (the bank's London merchant banking subsidiary) from the Eurobond market, and the addition of C\$1.4 bn to its

general provision for Third World loan losses, resulting in a swingling C\$800m charge against 1987 earnings.

But now the down-to-earth and unflappable career banker, whose accent still betrays his prairie roots, is quietly confident that the bitterest pills have finally been swallowed. "We feel quite comfortable that we don't have some more nasty problems ahead of us," he says. "We can look for better earnings as a result."

Various factors underlie Mr Taylor's optimism, chief among them the improvement in the bank's loan portfolio.

This has been achieved on the one hand by distilling large write-offs, particularly in the energy sector, and on the other by a steady increase in comparatively low-loss consumer credit as a proportion of total assets.

Higher oil prices have clearly also helped. In addition, the credit function has again been centralised as part of a drive to attain "a full understanding of credit risk management."

Meanwhile Mr Taylor, who joined the Royal as a junior clerk in 1949, has deliberately moved to re-position the bank both to withstand intensifying competition in its core (and highly lucra-



Allan Taylor, down-to-earth and unflappable career banker

(tive) domestic retail market and to take advantage of the opportunities afforded by the continuing deregulation of financial services.

Central to these plans is the Royal's newly-acquired 75 per cent controlling interest in Dominion Securities, Canada's

leading investment dealer, bought in a cash-and-share transaction valued at C\$985m. Future thrusts into insurance, investment management and information services are also under study.

Among other benefits, Mr Taylor expects the Dominion deal to provide a fillip for the bank's London-based investment banking interests - Orion Royal and the Kibitz and Aiken brokerage firm - by providing a solid Canadian base for their activities.

"Trying to be involved in something that is so different and 3,000 miles away is not the easiest trick in the world," he says.

On the international front, assets are being re-focused to concentrate on those areas perceived to offer the best potential returns. The Bahamas, Barbados and Australia currently fall into this category.

"We are not going to be less of an international bank," says Mr Taylor, once a stalwart of the Royal's international division. "But we are going to be more of an international bank that's selective. And if people describe us as being a niche player in the international markets, I don't mind that."

David Owen

Financial services

## Chill felt on Bay Street

BY ANY measure 1987 has been a tumultuous year for the Canadian financial services industry.

The first stages of deregulation and aspects of the US-Canada bilateral trade deal began to expose the once cosy sector to the full force of international competition.

The heavy LDC loan exposure of the major chartered banks came home to roost, with charges related to increased loss provisions producing well over C\$1bn of red ink in the Big Five's year-end results. And the spectacular October demise of the five-year-old bull stock market injected a cold dose of reality into a Bay Street flush with the proceeds of lucrative equity issues and new investment dealer millionaires.

The hope, once the transition period passes, is that a raft of well-capitalised, lean and diversified players will emerge, capable of holding their own in increasingly competitive and inter-related global markets.

The worry is that in the meantime a combination of greater competition and worldwide economic uncertainty will cause the knife to cut very deep. "I suspect we will see lay-offs on Bay Street along the road underlying has gone," one seasoned Toronto observer forecast in early November. Six weeks later, that remark is already proving all too well-founded.

In a nutshell, Canada's financial services "Little Bang" marks the end of the traditional four pillars of the domestic industry. Each of the four - banks, insurers, securities firms and so-called trust companies (quasi-banking institutions based on home mortgage and fiduciary business) - had until June 30 been either limited to or specifically barred from some types of business.

Mr Thomas Hockin, Minister of State for Finance, has expected to publish imminent draft legislation liberalising the functions of banks, insurers and some trust companies, and limiting links between financial and commercial interests.

The initial phase of reform was concerned primarily with the securities sector. From June 30, entry into the securities business was permitted for any Canadian company - whether a financial institution or not.

To give domestic investors a head start, foreign shareholdings in full-service securities dealers are limited to 50 per cent until mid-1988. Accordingly, the lion's share of post-deregulation headlines thus far have been made by foreign and domestic banks seeking to bite the hitherto forbidden fruit of the securities business.

With Royal Bank of Canada's agreement earlier this month to



Toronto Stock Exchange: facing reality

Canada's six biggest banks\*

	1987 net income after provision (C\$bn)	Before provision (C\$bn)	1986 net income (C\$bn)	Total assets (C\$bn)
Royal Bank of Canada	258.7	541.3	488.9	102.2
Canadian Imperial Bank of Commerce	63.2	386.8	341.2	88.4
Bank of Montreal	352.4	412.6	353.0	84.2
Bank of Nova Scotia	312.0	380.9	336.2	71.4
Toronto Dominion Bank	53.1	528.1	402.6	54.5
National Bank	63.6	214.4	186.9	30.0

\*Earnings for the year ended October 31 both before and after provisions made for Third World loan losses

purchase a 75 per cent stake in Dominion Securities, each of the Big Five Canadian banks has now taken steps to position itself in the securities market - the majority by buying into established firms. A number of foreign banks, including Deutsche Bank, Security Pacific and Banque Indosuez, have done likewise.

One side effect of the continuing regulatory upheaval has been the outbreak of a series of disputes between federal and provincial regulators in Canada over matters which touch on both federal and provincial jurisdiction.

It is widely accepted, for example, that Ottawa has been dragging its heels on approving foreign stakes in some brokers, which were swiftly sanctioned by Ontario, in a bid to encourage the home authorities of the would-be acquiring entity in turn to open up their securities sectors to Canadian financial institutions.

In the case of the US, where the Glass-Steagall act still mandates a separation of commercial and investment banking activities, Canadian free trade negotia-

tors have opened a chink for Canadian banks, though not full reciprocity, by securing an agreement to allow them to underwrite Canadian government securities in the US.

First, US-controlled companies are guaranteed treatment "as favourable as persons of Canada" with respect to the purchase of shares in Canadian-controlled financial institutions. Second, US bank subsidiaries have been exempted from existing limitations on the assets of foreign banks in Canada.

All but one of the Big Five Canadian banks reported heavy year-end losses. This followed their compliance with a third-quarter recommendation from the superintendent of financial institutions that they lift reserves on loans to 34 troubled debtor nations to between 30 and 40 per cent of their C\$24 bn exposure. The move came in response to a similar initiative by New York's Citicorp.

Toronto-Dominion was ultimately the only major Canadian

bank to avoid falling into loss as a direct result of this. However, the continued buoyancy of the domestic retail banking sector did provide a degree of damage limitation virtually across the board.

Meanwhile, memories of the shake-out among smaller banks which occurred in 1985 and early 1986 were revived by the collapse of the C\$1.3 bn Principal Savings and Trust Co. The debacle left some 32,000 disgruntled unsecured investors with estimated losses totalling C\$150-200m.

While the impact of October's stock market crash on the economy at large remains hard to assess, the fall-out has quickly cast a pall over Bay Street in common with other world financial centres. Two of the oldest names in the business - Dominion Securities and Wood Gundy - have already announced austerity packages. More are confidently expected to follow.

Dominion's move was restricted to implementing an across-the-board pay cut. Wood Gundy, however, has been forced to lay off 180 of its 2,100-strong staff.

The firm, long the undisputed doyen of Toronto investment dealers, has run into heavy water due primarily to losses from the recent BP privatisation. Its shaky condition has placed something of a question mark over its previously-announced C\$270m sale to First National Bank of Chicago of a 35 per cent stake in the firm.

At time of writing, First Chicago was still "trying to see if a revised transaction is in our interest."

David Owen

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## CANADA 4

The country's defence plan contains a multitude of high-spending proposals

## Battle over nuclear sub defence

"T'S A wish list." That is the verdict of at least one defence analyst on the White Paper which Canada's defence Minister, Perrin Beatty, produced this year. It contains a multitude of high-spending capital projects, but they are not yet backed up by hard cash.

As Christmas approaches, Mr Beatty will not be the only one hoping fervently that those wishes will turn into reality. The White Paper is widely acknowledged to be a vital step in making Canada's defence credible after two decades of decay. At 101 Colonel By Drive, the headquarters of the armed forces, the first review of Canada's defence priorities in 16 years was greeted with little short of euphoria.

Canada has long been the poor relation of Nato. In the 1970s, spending on capital equipment was dropped below acceptable levels, and the role of the forces in Canadian foreign policy was downgraded.

Though the last Liberal government began the process of reversing the process, the country remains the fourth lowest spender in Nato after Iceland, Denmark and Luxembourg. A rethink of capabilities and commitments was long overdue.

Having reviewed foreign policy in 1985, the Government turned this year to defence. The Department of National Defence's White Paper cuts the commitment in time of war, but strengthens the bases in Germany.

The reserves would be increased and armed with more modern weapons, a long overdue step. The forces would be re-equipped with new helicopters, ships, and for the first time, nuclear submarines.

The defence industry has more than a passing interest in Mr Beatty's predicament. The Paper contains a veritable feast of juicy contracts aimed at ending the "rustout" of Canadian equipment, and both overseas and domestic contractors are eagerly anticipating a share.

The bulk of the spending goes on re-equipping Canada's navy. By the turn of the century, in conjunction with the other programmes under way, the White Paper would provide 12 (relatively new) anti-submarine warfare frigates, four modernised Tribal Class destroyers, and perhaps four of 10 planned nuclear submarines.

This compares very favourably with its current complement - 20 anti-submarine destroyers and four diesel-electric subs.

Decisions on spending, and the battles over which province is given the lion's share of the construction contracts, have already begun. This year's top fiscal priority is six more anti-submarine frigates, at a total cost of C\$5bn, to add to six already constructed. The Cabinet is currently debating both funding and contracts.

St John Shipbuilding of New Brunswick looks set to be prime contractor, despite strong pressure from a rival in Quebec, Marine Industries Ltd.

But the most lucrative, and also the most controversial, items on Mr Beatty's shopping list, are the 10 nuclear submarines. They would carry out Can-

ada's three main maritime roles - anti-submarine warfare, surveillance and convoy patrol - but far more effectively than its current submarines. For the first time the Navy would also be capable of operating in the Arctic as well as the Pacific and Atlantic.

The order, if it emerges from the fiscal scrum in Ottawa, has a symbolic significance way beyond its \$10-12bn cost. It would be the first time that nuclear submarine technology has ever been sold from one country to another. It would also be the first time since the First World War that any Canadian company has built a submarine.

In the running to provide the technology are Vickers Shipbuilding & Engineering of the UK, which produces the top-of-the-line Trafalgar class, and the cheaper but less sophisticated French Rubis/Amethyste, produced by Direction des Constructions Navales. Five companies or groups are competing for the construction contract, including Saint John Shipbuilding and a Montreal syndicate headed by MIL.

The Canadian Navy had been the poor relation of the forces

for some years, and few would quarrel with the need to re-equip it. But the way in which Mr Beatty has chosen to do this is open to argument. Nuclear submarines, some defence analysts contend, are a highly expensive and inappropriate way to achieve Canada's maritime goals.

They are certainly expensive. The submarines, estimated by DND originally at C\$7.8bn, are likely to finally cost nearer C\$12bn, and possibly even more depending on whether they are based in existing facilities, or require new construction. Financing this expenditure - not to mention the other planned high-cost capital programmes - is Mr Beatty's most pressing problem.

Canadian strategic analysts also contend that the submarines are inappropriate. They are designed to attack rather than deter, they say, and are not consistent with Canada's role in Nato.

Nor is it clear how the submarines will operate in relation to existing US forces. The Pentagon is known to be uncomfortable at the idea of sharing Arctic waters with the Canadians, particularly in the North-West Passage where

sovereignty is in dispute. Ultimately, it is likely to be the fiscal arithmetic rather than strategic calculations that causes Mr Beatty to lose sleep. The spending programmes stand or fall on a formula that guarantees minimum annual budget increases of 2 per cent, though the re-equipment plan assumes real spending increases of 5 per cent, or more than C\$800m per annum.

Spending for large individual projects over and above the 2 per cent level would be determined by the Cabinet on a case-by-case basis, thus effectively giving them a veto on any capital projects. This was agreed after intense Cabinet opposition - originating from both the Department of External Affairs and the Treasury - to the Paper's ambitious plans.

Even in the first year of the White Paper, with optimistic economic forecasts and a broadly sympathetic administration, there have been problems, and the Cabinet has not yet decided on spending levels. If Finance Minister Wilson gets his way, Mr Beatty will get no more than 2 per cent.

The Cabinet is expected to announce sometime within the next few weeks whether or not the frigate programme can go ahead, and which other programmes must be cut back to pay for it. It is likely that some of the more marginal programmes - modernisation of weapons for the reserves, for instance - will be cut or delayed.

Wrangles over spending beyond the 2 per cent level are likely to be a persistent theme in the side of defence planners. If they had hoped to rebuild confidence in Canadian capabilities by building in steady rises in expenditure, then the outcome leaves a great deal to be desired. Impredictability and policy confusion - especially where competing provincial claims to federal defence funds are at stake - look set to be institutionalised.

The PCs had also hoped to make political capital out of their defence record. In contrast with both the anti-Nato NDP and the Liberals, who began the rundown of the forces in the early 1970s.

If the government cannot make good on its commitments then the claims made in the White Paper will become political liabilities rather than assets.

In the long term, the Paper's preference for high spending projects with a weak fiscal basis could be dangerous. Even as it stands, analysis in Europe has criticised the Paper for its lack of balance. They contend that it over-emphasises homeland defence and "sovereignty" at the expense of the commitment to Nato and Europe.

The US is also known to be concerned at the acquisition of the nuclear submarines, which some Pentagon officials consider inappropriate to Canada's needs.

If the Paper is eroded by Cabinet vetoes, the imbalances could become worse. One possible result of the 2 per cent formula, says Dan Hayward of the Canadian Centre for Arms Control and Disarmament, is a "rump fleet".

This would involve DND curtailing the submarine programme at an early stage and cutting back on its expansion in other areas. The result would be that Canada would be unable to satisfy even its existing defence obligations.

Andrew Marshall



Skiing in Alberta, venue for the Winter Olympics

## Calgary Winter Olympics

## Preparations under way for record Games

CALGARIANS PRIDE themselves on being rugged individuals. Each year they put on the Calgary Stampede - "The Greatest Outdoor Show on Earth". In February, Canada's fifth largest city will host the greatest winter show - the 1988 Olympic Winter Games.

Calgarians like to boast that there is the first Canadian city to host a Winter Olympics (Montreal hosted the Summer Games in 1976) and they claim that these will be "the best-ever games".

The event takes place from February 13-23. A total 1.5m visitors are expected to watch the action firsthand while another 1.5m people worldwide tune in on TV.

Already 2,600 athletes and officials from 55 countries have said they will attend the Games - a record number of nations compared with more than 100 at Sarajevo, Yugoslavia in 1984.

The drawn-out schedule of 16 days stretched over three weekends for the 1988 Winter Olympics was conceived with lengthy snow coverage (550 hours) in mind. Previous Games lasted two weeks or less.

The American ABC network paid a whopping US\$300m for exclusive rights to beam the event worldwide, the highest sum for television coverage of any Olympics and US\$84m more than the cost for the 1984 Summer Games in Los Angeles. The \$300m virtually guaranteed that the Calgary Olympics would be profitable.

The local organising committee, or Olympic Calgary Olympics (OCO'88) is using the Los Angeles event as a model of

how to run a successful and profitable Olympics. OCO'88 aggressively courted businesses and established categories of participation sponsors, suppliers and licensees.

Twenty sponsors have paid a minimum of C\$2m each for advertising privileges, while 40 suppliers each paid C\$500,000, and 41 licensees guaranteed 10 per cent of their projected wholesale revenues for the Games.

**The stretched 16-day schedule was conceived with lengthy worldwide TV coverage in mind**

OCO'88 will bring in C\$87m in revenue from the three areas of corporate support, and expects C\$42m from ticket sales and C\$32m from a post-Games sale of equipment.

Total revenues are expected to be C\$556m while expenditures should be C\$516m, leaving a C\$40m surplus to be split between the Montreal-based Canadian Olympic Association and the Calgary Olympic Development Association, both of which are charged with fostering sports development in Canada.

To make a profit is a vital part of the exercise since the Montreal Olympics ran up a C\$1bn deficit.

The construction and expansion of ten Olympic venues costing C\$327.5m. Enlargement of McMahon Stadium to seat

59,400 people for the opening and closing ceremonies has cost C\$16.3m; the Olympic Saddledome site of the Olympic skating, cost C\$37.1m; the Olympic speed skating oval, at the University of Calgary, cost C\$39.9m; Canada Olympic Park, on the western outskirts of the city and site of the ski jumping and bobsleigh events, has cost C\$70m.

Nakiska at Mount Allan, a 60-minute drive west of Calgary where the alpine skiing events take place, was C\$27.1m. Cross-country skiing and biathlon (a combination of rifle marksmanship and cross-country skiing) will be held at the C\$17.3m Canmore Nordic Centre, a short drive north-west of Nakiska.

The two athletes' villages, Calgary and Canmore, cost C\$51.5m and C\$46.9m respectively. The other C\$29.9m was spent expanding and renovating existing arenas in Calgary.

As for government contributions, Ottawa put in C\$200m, the province has given C\$129m and the City of Calgary added C\$46.9m for capital projects. In addition, the three levels of government chipped in C\$52m towards general and administrative expenses.

The XV Olympic Winter Games will be the most expensive in history, by the standards expected to be the largest as well as the best attended and watched. What is more, according to a federal government study, these Olympics will pump an estimated C\$1.2 bn into the Canadian economy.

Alister Thomas

## Immigration

## Cool welcome for refugees as Ottawa seeks curbs

WHEN 173 Indian men and one Turkish woman waded ashore near the western tip of Nova Scotia last July claiming refugee status, they were greeted with tea and sympathy towards the more accustomed to finding driftwood washed up on the beach.

The welcome was decidedly cooler in Ottawa, however, where Parliament was reconvened a month early for an emergency session to debate stiffer immigration legislation.

The proposed measures, now enshrined in two controversial Bills, aim primarily to deter bogus refugees and streamline the process of determining refugee status.

The prime factor that has persuaded the Canadian government that a reappraisal of its traditional hospitality towards refugees is necessary (in line with a trend which has become apparent in many other Western countries) is quite simply the surge in new arrivals with dubious credentials. In 1980 only 1,600 migrants requested refugee status in Canada; by this year the corresponding figure will be nearer 30,000.

This has put the system under increasing strain. In the words of Mr Benoit Bouchard, Canada's Minister of Employment and Immigration: "The existing system was never designed to deal with the growing number of claims or with the large number of false claims to refugee status."

"It is bogged down and can no longer respond effectively to genuine refugees in need of Canada's protection."

But the refugee problem is just one part of the overall immigration equation. And while Ottawa mulls over stiffer measures towards relatively unmonitored refugees, it continues to roll out the red carpet for wealthy business immigrants and other "legitimate" settlers.

**Stiffer legislation has been made necessary by a surge of arrivals with dubious credentials**

In 1987 the Government planned to admit between 115,000 and 125,000 immigrants. This target range will increase to 125-135,000 in 1988 in line with the Government's position that an upward movement in immigration levels is desirable and necessary for social, economic and demographic reasons. The country is, after all, inhabited by a sparsely-scattered and aging population - and is afflicted by a steadily-declining birthrate.

"Family class" immigrants represent the largest single component of the 1987 target ranges in line with government estimates that family reunification remains the main goal of Canada's immigration policy.

The next biggest category for newcomers is the so-called "independent" class - those with a job

skill in one of 110 areas where there is a supply shortage. The third category is refugees, followed by business immigrants.

For selection purposes, the Immigration Act sets out a points system under which immigrants must meet certain standards in an assessment based on nine factors. These include education and training, knowledge of English and French, and occupational

Canada's impressive recent record of economic growth, there is concern that it may prove difficult to maintain the living standards of even the current 25m population at today's enviable high level.

Equally strong in a country whose citizens take pride in its reputation as an exceptionally tolerant and law-abiding society are the fears of importing terrorism, crime, and increased racial tension.

The immigrant cause has not been helped by the fact that Sikh extremists are considered responsible for the world's worst terrorist air attack - the explosion in June 1985 aboard an Air India jet flying from Toronto to Bombay which killed 329 people.

More recently, in December 1986, two Montreal Sikhs were convicted of conspiring to bring down another airliner. And in February four Vancouver-based men were convicted of attempting to murder a Punjab Cabinet minister on vacation.

More positive publicity has been generated, however, by the stream of Hong Kong residents with the "1997" visas who have recently been investing in Canada at the rate of an estimated C\$20m a month, lured partly by the bait of the Immigration Department's so-called "entrepreneur programme".

This grants permanent residency to individuals whose net worth is more than C\$500,000 - provided that they indicate an intention to invest in Canada.

Karen Zagor

## Indigenous peoples

## Patient moves towards a recognised homeland

AT RANKIN INLET, on the far reaches of Hudson Bay where the ice desert of the Keewatin Territory slides into the Arctic waters, an historic meeting took place two weeks ago.

The elders of the Inuit, the preferred name of the people Europeans still call the Eskimo, met to discuss the future of their land.

With them sat their old adversaries, the leaders of the Dene Nation of Indians from the south-west below the treeline. With them also were leaders of the Metis, the descendants of the Indian people who intermarried with the Scots and French fur traders.

The 17,000 Inuit wish to create a new territory over their traditional lands which cover 2.2m square kilometres - a region greater in size than the combined area of the United Kingdom, France, Belgium, Luxembourg, the Netherlands, Switzerland, Austria, Denmark, Finland, Hungary, Czechoslovakia, Bulgaria, Albania and Iceland.

But colonial history has lumped the Inuit into a partnership with their Indian cousins - with whom they share neither linguistic nor cultural heritage - in the Northwest Territories. This vast sweep of Ottawa-administered land covers more than one third of Canada, the second largest country in the world.

For four years the Inuit have been trying to create Nunavut, which means "Our Land" in the Inuktitut language, but have

The most immediate has been the nervousness of the 10,000-strong Dene Nation and Metis of the Western Northwest Territories. These peoples would be a political minority to 20,000 whites living in the frontier settlements of the Mackenzie River valley if the territory was split.

The partnership with the Inuit gives the native peoples a one-seat majority over whites in the 24-seat legislature in the territory's capital, Yellowknife.

In theory, the Dene would also like their own territory in the western Arctic, but they want a Fijian-style constitution so they are guaranteed political sovereignty over the white population.

Talks between the Inuit and Indians on where to set the boundary of the new territories collapsed earlier this year. As well as Dene apprehension there is an ancient question of hunting rights, but move up on to the Inuit territory of the tundra in the autumn to hunt the caribou.

But soon after the Pope's visit to Fort Simpson in September - it is to be renamed Lidiit Koe in his honour - the Dene leaders decided to try negotiating with the Inuit again.

The presence of their leaders and those of the Metis at the Rankin Inlet meeting was a signal of this willingness. There is now quiet optimism that it will be possible to hold a referendum on the division in March.

Another problem for the Inuit is the lack of a real economic base. When, in 1984, the Euro-

pean Economic Community bowed to pressure from animal rights groups and banned the import of the fur of seal pups from the ice floes of Newfoundland, the result was devastation of the Inuit communities 2,000 kilometres to the north.

These people never hunted seal pups, but they did depend on selling the skins of adult seals to the European market and the European ban killed the market for all seal parts.

All Canada's 1.5m native peoples have watched with growing alarm as Europe responded sympathetically to anti-hunting and trapping campaigns.

They fear the European campaigners will now move against the market in fur from wild animals such as beaver, muskrat, raccoon, lynx and mink. This trade is the only independent economy available to very many native peoples.

A further pressure on the creation of Nunavut is the refusal by the federal government and the provinces to give native people the constitutionally-entrenched right to self-government.

A national summit meeting in March with Mr Mulroney, the Prime Minister, and leaders of the ten provincial governments ended without agreement. As the "First Nations" of the country, the Indians and Inuit wanted their reservations and communities to have equal political rights with the provinces. Ottawa and the provinces refused.

The creation of Nunavut with its Inuktitut majority would

be something of a political beacon to all Canada's native peoples. How soon Nunavut might develop into a province with all the legal powers that entails is another question.

The Meek Lake accord this summer by which Quebec signed the 1982 constitution changed the rules by which new provinces can be created. It will now require unanimity among Ottawa and the provinces, and people in the territories fear this means it will be almost impossible for them to achieve provincial status.

In the last 20 years Ottawa has handed over to the territories administrative power to the legislatures of the Northwest Territories and its western neighbour, the Yukon. But the Northwest Territories in particular have little in the way of a tax base and are heavily dependent on Ottawa's contribution to their nearly C\$500m annual budget.

The Yukon is seen as a much more credible candidate for provincial status. With only 482,000 sq kilometres of land it is a more manageable size and it has a reasonably strong economy based on mining.

Of its 23,000 people only about 6,000 are Indian and the legislature in Whitehorse engages in the kind of partisan politics that Ottawa and the provinces understand.

The Yukon legislature, by contrast, has adopted a more style of government whereby everything is done by consensus.

Jonathan Manthorpe

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Canada's only predominantly French-speaking province has learned some difficult lessons

## Tests for Quebec's self-confidence

QUEBEC'S new-found energy and self-confidence has undergone some severe testing in recent months.

First, Quebecers had to weather a summer of political debate on last spring's Meech Lake constitutional accord.

Though the details were difficult to fathom, the symbolism was important: Quebec, Canada's only predominantly French-speaking province, could finally be part of the 1982 Canadian Constitution with dignity.

Then the October stock market crash massacred a new generation of Quebec equity investors and raised fears for the health of the economy.

Finally, on November 1, the sudden death of Mr René Lévesque, founder and architect of the separatist Parti Québécois and premier from 1976 to 1985, prompted an extraordinary outpouring of public feeling.

Hardly was Mr Lévesque buried when a group of hardline separatists asked for the head of his successor, Mr Pierre Marc Johnson, who promptly resigned saying he could not bridge the gap between hardliners and moderates.

Mr Johnson, a moderate who invented the compromise goal of "national affirmation", had succeeded Mr Lévesque in 1985 after the latter was forced to resign by internal party squabbling.

The PQ, which lost the famous 1980 referendum on the constitution, is split down the middle between hardliners who believe it must retain a clear goal of independence, and moderates who maintain that "sovereignty" must be soft-pedalled for electoral reasons.

The quarrel within the PQ began to come out into the open before Mr Lévesque's death, when the former Finance Minister

Mr Jacques Parizeau and several other former ministers in Mr Lévesque's last Cabinet began to snipe at Mr Johnson's "national affirmation" goals.

During the summer the PQ's national convention had overwhelmingly backed Mr Johnson, son of former premier Mr Daniel Johnson, and his policy of moderation, and despite his lacklustre performance as a debater in the National Assembly, the polls persistently showed him high in public esteem.

The hard-liners insisted that the PQ coalition could only survive as a political force if it went back to independence or political sovereignty in economic association with the rest of Canada as its goal.

Otherwise it would continue to lose members to the Quebec wing of the federal New Democratic Party, now going through contortions to show that it is pro-Quebec autonomy.

The attacks continued after Mr Lévesque's death, and it became clear that Mr Johnson could not hold his parliamentary group together, nor the broader split among the party faithful.

A lawyer and medical doctor by training, Mr Johnson will continue to exercise influence through the private sector. His brother is industry minister in the Bourassa Cabinet.

The hard-liners look to Mr Parizeau as party saviour. He has always believed in the ultimate



Quebec city, the essence of French-speaking Canada

political independence of Quebec, but he is first and foremost a pragmatist.

True to form, Mr Parizeau has heard the call clearly, but is in no hurry to succeed. Despite his immense prestige, he is not sure he can hold the party together either.

The province's Premier, Mr Robert Bourassa, who won a landslide 99 out of 123 seats in the December 1985 election, has sought meanwhile to implement his three-pronged platform comprising rapprochement with Ottawa and the other provinces after the PQ's quarrel over the

constitution with Prime Minister Pierre Trudeau, more efficient government and more economic development.

Suddenly, it seemed, Quebecers had had enough of big government and high taxation under the guise of "social democracy" and were only too eager to embrace the cause of the private sector, entrepreneurship and self-reliance.

The PQ's language legislation to further the use of French in multi-cultural Montreal was generally seen as sufficient and the Francophones appeared to feel secure and confident about the

future, eager to be part of the North American mainstream.

The Liberals set about putting the province's finances into better shape and ease the tax load to nearer Ontario levels. The economy prospered as forest products, metals and other commodity prices picked up and exports did well in booming US markets.

Quebec has been growing at between 3 and 4 per cent a year in real terms - not as fast as Ontario but above the national average. Unemployment reached a staggering 15 per cent at the height of the 1982-83 recession,

but has since dropped to about 10.5 per cent.

Mr Bourassa, in the second year of his term, wanted the Meech Lake accord as much as Prime Minister Brian Mulroney in Ottawa, and he has had little difficulty in persuading Francophone Quebecers that the province's new status as a "distinct society" is ample compensation for having to share its traditional veto power over constitutional change with the other nine provinces.

The October 19 international stock market meltdown was a severe shock for the new Franco-

phone middle class in Quebec, now in full control of the Montreal economy. Since 1982, the number of Francophones in Quebec owning stock has doubled to about 12 per cent - lower than Ontario but showing a remarkable shift away from the traditional haven of bonds.

It was Mr Parizeau who as PQ Finance Minister in 1979 installed a specific tax shelter to ease the heavy tax load on the middle class and stem the flight of capital from Quebec after passage of Bill 101, the language law designed to ensure the primacy of French in business and industry.

A Quebec taxpayer could write off up to 150 per cent of the cost of an investment (within certain limits) in a Quebec-based company from his provincial income tax as long as he held the stock for a minimum of two years.

The potential was not widely realised until the recession of 1982-83, when smaller Quebec companies were in dire need of new equity capital for the recovery.

Soon a flood of new equity issues hit the market, bolstering the underwriting departments of Quebec's investment houses and adding significantly to the Montreal exchange's stock trading volume.

Up to this October, between C\$3 bn and C\$4 bn of new equity was raised for Quebec-based companies from Quebec stock savings plan tax shelter

issues, even though the benefits were reduced in later years. Other provinces have copied the system.

However, since October 19, QSSP stocks have fallen on average between 35 and 40 per cent more than the average for all the Canadian equity market. Thousands of new Quebec investors have been singed badly, and the investment houses may now have to occupy themselves creating mergers among the scores of smaller companies which have gone public in the past five years.

Not surprisingly, brokers and investors are calling on the government to "do something" - but Mr Bourassa has wisely exercised caution.

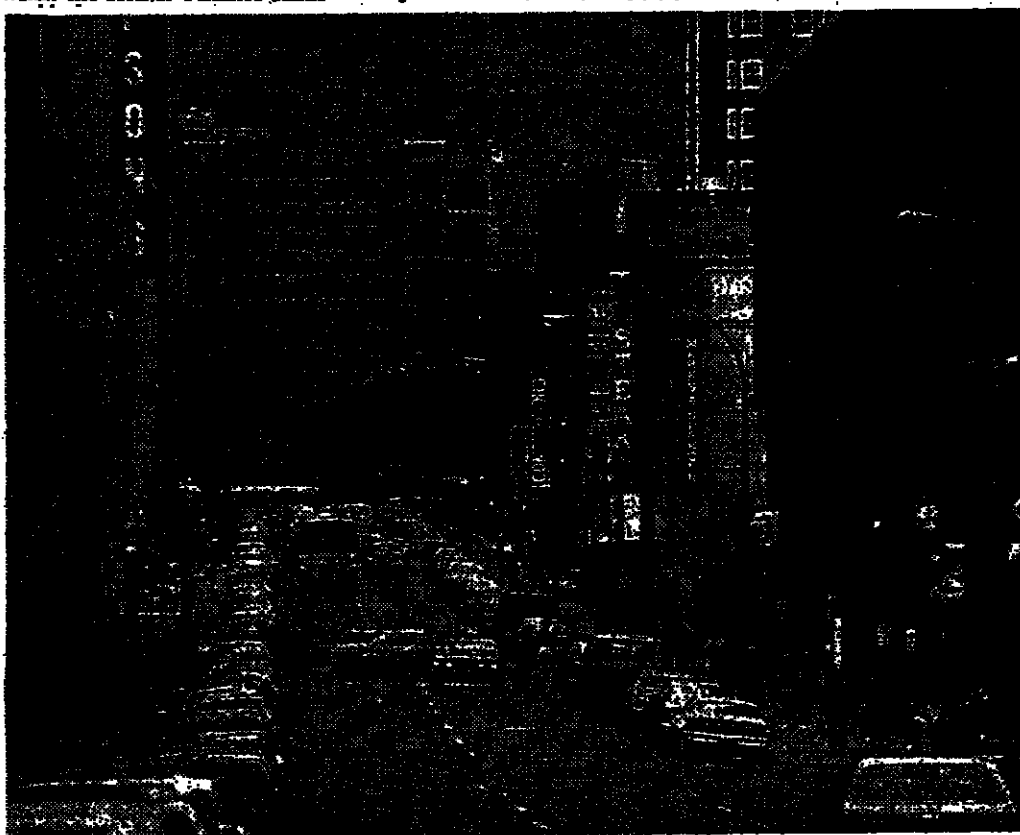
Anglophones represent only 20 to 25 per cent of Quebec's 6.5m population, and the Government continues to make strenuous efforts to channel immigration towards the Francophone sector.

But while Quebec's extremely low birth rate is creating fears of decline among Francophones, the new focus on the troubles of the PQ is raising Anglophone concerns about a possible resurgence of independentist feeling.

However, bilingualism in Montreal, especially among the Anglophones who remained after the exodus of 1976-78, has made real progress. The issue of bilingual signs and several other controversial clauses in Bill 101 is still before the Supreme Court of Canada, but Francophones can now work in their own language almost everywhere in Montreal.

Premier Bourassa's priority must be the economy and closer trade links with the US as the North American recovery runs into its sixth year. All Quebecers are worried by the prospect of a downturn and a return to rising unemployment.

Robert Gibbons



Montreal - business heart of the "distinct society."

### Ontario

## Robust performance brings criticisms

A MUTUAL antipathy for Ontario, it is often said, is the strongest force binding the rest of Canada together.

If it holds true at all, this remark holds true at times like the present when Ontario's robust economic performance is leaving the sluggish to respectable growth in less affluent provinces (barring Quebec) lagging in its wake.

Ontario's gross domestic product is widely expected to increase by about 3.5 per cent in 1987, compared with 3 per cent or so in the country as a whole. Unemployment - at a projected year-end level of 6.4 per cent - is the lowest in Canada.

Retail sales rose a brisk 9.6 per cent in the first five months, against a national average of 8.2 per cent for the same period.

But there is a stark difference between performance in the comparatively disadvantaged north of the province and that in the industrialised south.

Unemployment in northern Ontario (a phrase which many Torontonians interpret to mean all points north of the weekend cottage country around Lake Simcoe) is running at about 11 per cent, compared with 4.4 per cent in Toronto. Retail sales in the north grew by just 6.5 per cent in the first five months and GDP growth is forecast at a pedestrian 2 per cent for 1987 as a whole.

Moreover, economic storm clouds are looming over even the prosperous south, after a boom which powered Canada in 1986 to the fastest output growth of any leading industrial country, according to the OECD.

The October stock market collapse, though not interpreted as a precursor of a 1980s-style industrial crash, shook Toronto's buoyant Bay Street financial district at a time when it was still coming to terms with the consequences of the summer financial services industry deregulation.

Post-crash economic projections have been decidedly gloomy in tone, none more so than that released by the Bank of Montreal.

"The outlook for the Ontario economy in 1988," the bank maintains, "is much less promising as a result of recent stock market developments." Growth in the province's economy,

according to bank forecasters, will be "flat or even decline" on a fourth-quarter over fourth-quarter basis in 1988.

Toronto's incredible construction boom is peaking, demand for new homes wanes in the wake of high prices, reduced migration from less fortunate parts of the country and (until recently) rising interest rates.

Meanwhile, the crucial auto industry, which directly contributes close to one-fifth of the province's industrial output, is

**Unemployment at a projected year-end 6.4 per cent is the lowest in Canada**

confronted by looming overcapacity and sluggish consumer demand - factors which were perhaps uppermost in the minds of union leaders who placed pension indexation at the top of their list of demands in negotiating new labour contracts this autumn with the Big Three North American carmakers.

Royal Bank of Canada blames "sharply lower sales in the dominant transportation equipment industry" for the "very weak" performance of the Ontario manufacturing sector so far this year.

Finally, the less efficient Ontario manufacturers, together with the province's agricultural and winemaking sectors, face a severe jolt if Mr Mulroney's proposed US-Canada free trade deal succeeds in staying the course.

However, the province's extensive mining interests should benefit from the deal, while it remains to be seen whether the pact's auto-related proposals will help stave off the problems which otherwise beset it. In all, the province accounts for approximately half of the country's exports to the US.

On a political level, the trade pact has placed Ontario's increasingly self-assured Liberal premier, Mr David Peterson, in an extremely delicate position. Mr Peterson was re-elected by a landslide in September in a contest which reduced the once omnipotent Tories, who ruled the province unbroken for 42 years until 1985, to a rump of

just 16 seats in the provincial legislature.

The result was widely interpreted as giving Mr Peterson a mandate to pursue his reservations regarding the likely contents of any free trade deal (should one emerge).

But his increasingly vociferous opposition to the Mulroney agreement - in line with the stance adopted by the federal Liberal party - has left Mr Peterson vulnerable to attacks both from the powerful Ontario business lobby - most of which is strongly in favour of the deal - and the provinces, which are tempted to view Ontario's opposition as yet another attempt by Canada's "have" province to sabotage a package which they feel would benefit the "have nots".

Resentment of Mr Peterson's criticisms has been particularly pronounced in resource-rich western provinces like Alberta, where memories of Pierre Trudeau's now essentially dismantled National Energy Programme - which kept Canadian energy prices artificially low following the oil shocks of the 1970s to the benefit of the more industrialised provinces - still rankles.

One especially unfortunate remark, made by Ontario Industry Minister, Mr Monte Kwinter (for which he later apologised) provoked a torrent of indignation from elsewhere in the country. "If it's a bad deal for Ontario," Mr Kwinter said of the bilateral trade pact, "by extension, it's a bad deal for Canada."

The comment elicited a furious response from Mr Grant Devine, the Saskatchewan premier, who said that such an attitude "makes people roll over in their graves".

If it does nothing else, the increasing intensity of the free trade debate, coupled with the strong likelihood of slower growth in the province next year, will probably end the extended political honeymoon which the silver-haired and sartorially elegant Mr Peterson has enjoyed since his original election in 1985.

The way in which he handles the two-pronged challenge could well determine whether or not, as many have suggested, this wily politician has a future on the national political stage.

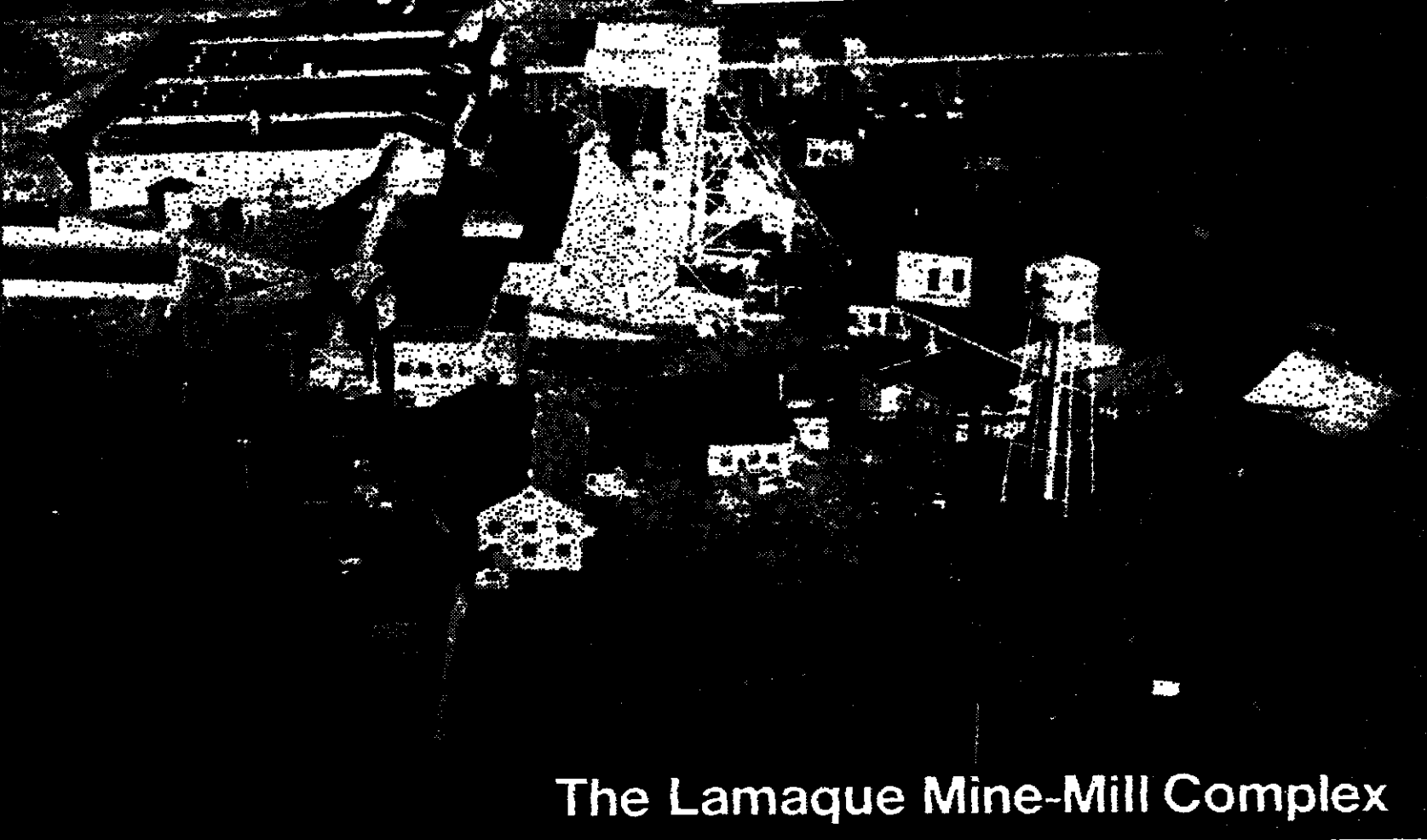
David Owen

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Drilling is currently underway both inside and outside the No. 5 diorite plug with one drill on the 3200' level, 1 drill on the 3,000' level, and 1 on the 1800' level. The current program is designed to put vertical tons in place between the 1800' and 3400' level. It should be noted that there is further potential for tons above the 1800' level and below the 3400' level. A new drilling program below the 3400' level will commence within a week. From the current Teck-Tundra drift results note the following:

Current underground drift results:

Level	Distance Sampled	Average Grade	Width
1800'	79.5'	.30 ozs au/per ton (uncut)	9'
or	79.5'	.24 ozs au/per ton (cut)	9'

Level	Distance Sampled	Average Grade	Width
Two separate zones:			
3200'	465.5'	.40 ozs au/per ton (uncut)	7.1'
or	465.5'	.22 ozs au/per ton (cut)	7.1'
or	217.5'	.12 ozs au/per ton (cut)	6.2'
Two separate zones:			
3400'	195.5'	.37 ozs au/per ton (uncut)	6.4'
or	195.5'	.29 ozs au/per ton (cut)	6.4'
and	208'	.42 ozs au/per ton (uncut)	6.8'
or	208'	.31 ozs au/per ton (cut)	6.8'

An exceptional drill hole T-13833 drilled from the 1800' level announced on September 3, 1987 intersected a broad zone of multiple quartz veins and stringers from 893.8 to 956.7'. This 62.9 foot intersection estimated to represent a true width of 52 feet averaged .412 oz/t Au uncut or .293 oz/t Au, cut to 1 oz. An offset hole is now being drilled.

Since the joint venture began in September, 1986 to the end of October 1987, 6 million dollars will have been spent on this program. Once Tundra spends 9 million dollars, a 50% interest will have been earned at Lamaque in the areas both around and including the numbers 4 and 5 diorite plugs. This is significant in that Teck has previously evaluated that the No. 4 intrusive contains 431,000 tons of .16 oz/t Au of drill indicated reserves.

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## CANADA 6

The western provinces are struggling to achieve real growth

# Staunch feelings on the major issues

WHEN TIMES are tough, the four provinces of western Canada - Manitoba, Saskatchewan, Alberta and British Columbia - traditionally rail against a single scapegoat, "the East."

By this they mean not the generally disadvantaged provinces of Atlantic Canada, but the "fat cats" just beyond the Manitoba border in Ontario and Quebec.

With times at present fair to middling, western voices are again being raised in envy at the sustained boom in Canada's two most powerful and populous provinces.

While real GDP growth of between 3 and 4 per cent is this year being forecast in both Ontario and Quebec, the four western provinces will do well to exceed a 2 per cent increment.

Recent projections made by the Ottawa forecasting agency, Informetrica, indicate that in Saskatchewan, which has been especially hard hit by depressed grain prices, real GDP in 1987 will actually fall.

The west's task in catching up with the fast pace set by its comparatively wealthy neighbours is made doubly difficult by the fiscal policy which strong central Canadian growth almost inevitably engenders.

High interest rates which serve to reduce inflationary pressure in the most buoyant provincial economies often tend to stifle much-needed growth elsewhere.

In this context, Ontario premier David Peterson's increasingly clear-cut opposition to Brian Mulroney's US-Canada free trade pact has served to bring the west's already rising resentment closer to fever pitch.

"I am warning those who would damage Alberta's future by taking positions against free trade that we will never forget it," Mr Don Getty, Alberta's Conservative premier, said recently.

Not only are western provinces itching to capitalise on tariff-free access to the vast American market for their own primarily resource-based producers, they expect to import in return cheap American food and manufactured goods to the direct benefit of all consumers.

Indeed, Ottawa's traditional reliance on tariff and non-tariff

barriers to regulate trade is seen as little more than a means of protecting inefficient Ontario manufacturers by many westerners still smarting from the interventionist Trudeau National Energy Programme.

Generally speaking, the further west one goes, the stronger support for the bilateral trade deal becomes.

Certainly, Mr Bill Vander Zalm, Social Credit Party premier of the Pacific coast province of British Columbia and an avid

**They are itching to capitalise on tariff-free access to the vast American market**

admirer of Mrs Margaret Thatcher, the British Prime Minister, can scarcely contain his enthusiasm. Mr Vander Zalm, whose policies include a sweeping privatisation programme of government services and assets, has variously described the agreement as "extremely important" and "fantastic."

Blessed with a C\$9 bn per annum forest products industry, British Columbia was the province worst hit by last year's serious alterations with the US over, first, cedar and then softwood lumber.

In the first case, a 35 per cent duty against Canadian shakes and shingles exports was duly imposed.

In the second, Ottawa ultimately agreed to levy a 15 per cent tax on domestic producers as an alternative to suffering a US-imposed duty of similar magnitude. Until 1986, about 80 per cent of Canadian forest product exports to the US were duty-free.

As a result of these setbacks, the possible consequences of not securing a trade deal with the US are perhaps more fully appreciated in British Columbia than elsewhere in the country.

Also solely in favour of the deal is the Conservative phalanx of Mr Getty's Alberta and Mr Grant Devine's Saskatchewan.

Alberta (Canada's Texas) has emerged as a strong champion of the continental energy policy

presaged in the agreement. This, it believes, would preclude any

resurrection of Trudeau-style energy interventionism.

The province is just beginning to regain its jaunty self-confidence after the renewed slump brought on by last year's precipitous drop in oil prices. This is due primarily to tax and royalty cuts and the upturn in the oil price, as well as the emergence of a stronger, more diversified economy.

In a region which takes its sport extremely seriously, the recent successes of Edmonton's

stone generating station when it is completed in 1992.

While Manitoba, like Saskatchewan, has been hit by the slump in grain prices, its more diversified economy has weathered the storm comparatively well.

Unemployment - at just over 7 per cent - is among the lowest of any province. Non-residential capital spending in 1986 rose at a startling 12 per cent - three times the national average.

Economists believe that the province's deteriorating budgetary deficit is precipitating something of a slowdown, however.

Retail sales, which rose by over 15 per cent as recently as 1985, are this year expected to be up just 3.5 per cent.

In October, the west's discontent coalesced into the formation of a new political party - the Reform Party of Canada - whose primary aim - to improve the lot of the region and its 29 per cent of the Canadian populace - was encapsulated in the sentence: "The West wants in, not out" by party leader, Mr Preston Manning at the founding convention.

The party's creation was perhaps rendered necessary by the increasingly lofty ambitions of another western progeny - the NDP - founded as the Co-operative Commonwealth Foundation in Regina, Saskatchewan in 1933.

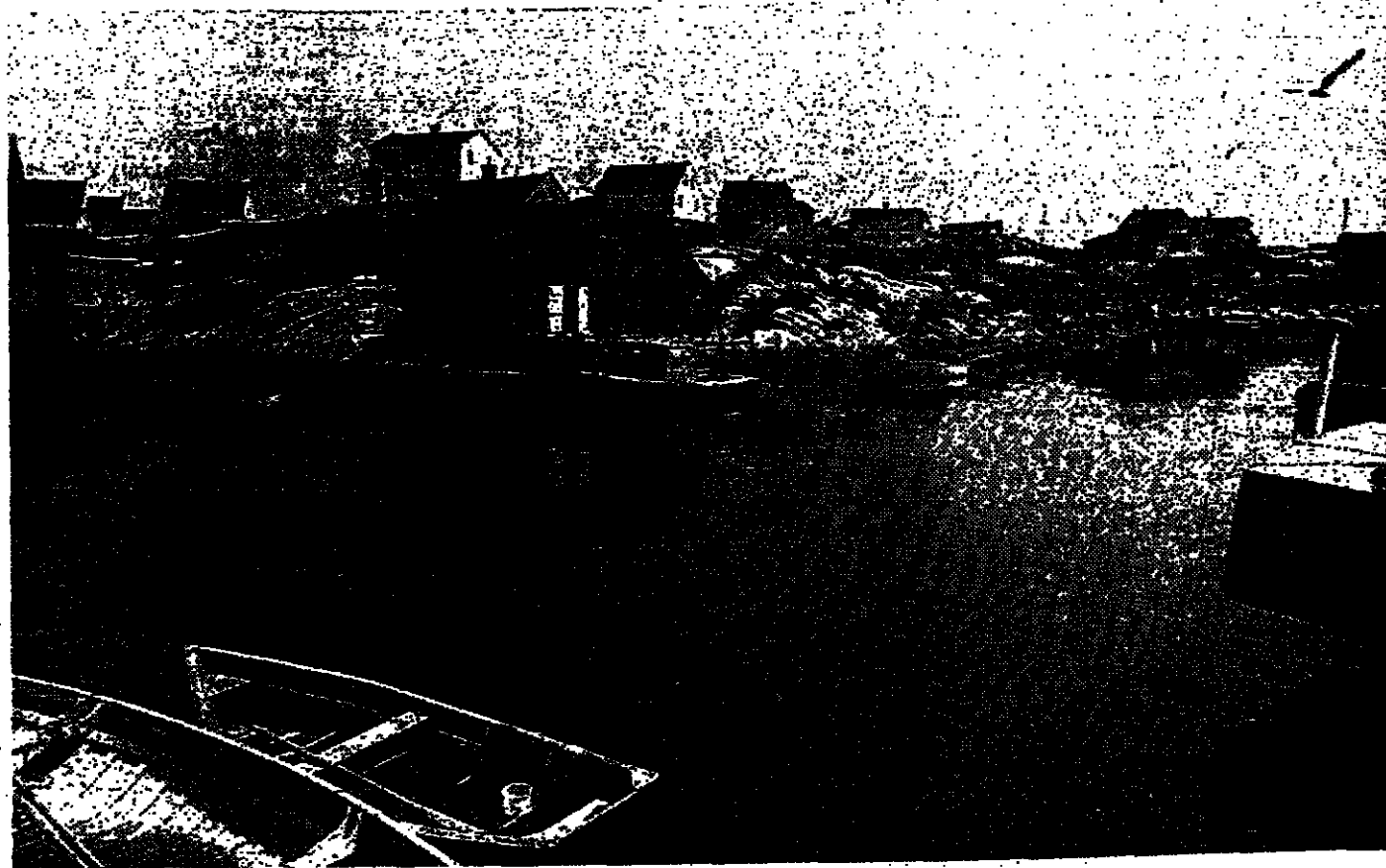
But it is the NDP which poses the more immediate threat to the current right-of-centre consensus in the region. In addition to being the party of government in Manitoba, the NDP constitutes the official opposition in British Columbia and Saskatchewan alike.

Indeed, in the latter the party and its recently-appointed (but widely known) leader, Mr Roy Romanow, comfortably lead the polls.

Nevertheless, the right is not yet ready to relax its grip on all points west of Flin Flon and south of the territories. Premiers Vander Zalm, Getty and Devine all began their present five-year terms in 1986.

Mr Mulroney will be able to count on continuing staunch support from the three westernmost provinces on major issues until his own mandate expires in September 1989.

David Owen



Peggy's Cove, Nova Scotia tourist spot

## Atlantic provinces

## Swing as economies trail

THE FOUR Atlantic provinces - Newfoundland, New Brunswick, Nova Scotia and Prince Edward Island - traditionally Canada's poorest, have been trailing the country in economic recovery but leading it in a political swing to the left.

The region's most noteworthy political event of 1987 was the crushing defeat of Mr Richard Hatfield, the New Brunswick premier whose 17-year reign came to an abrupt end when Mr Frank McKenna's Liberals captured all 58 legislative seats in the October 12 election.

Mr Hatfield had always been something of an anomaly among premiers. A bachelor who collected dolls for a hobby, he won praise for making conservative New Brunswick Canada's first officially bilingual province, and for crossing political lines to support former Prime Minister Pierre Trudeau's efforts at Con-

stitutional reform.

But public doubts about Mr Hatfield's personal lifestyle reached fever pitch three years ago when police checking luggage during a tour of the province by the Queen found a small quantity of marijuana in his suitcase.

**The booming fishery has helped the region to emerge from the early 1980s recession**

provincial and federal governments of different political stripes. All four Atlantic provinces had Conservative governments when Mr Mulroney came to power in 1984.

The safest remaining Tory premier in the region is Newfoundland's Mr Brian Peckford, whose habit of scrapping publicly with prime ministers regardless of political affiliation stands him in good stead with voters in the remote island province.

Most recently, Mr Peckford has clashed with Ottawa over fisheries negotiations with France, which claims the right to exploit extensive areas off the Canadian coast by virtue of its ownership of two tiny islands off south Newfoundland called St Pierre and Miquelon.

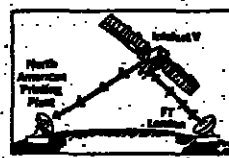
Mr Peckford complained bitterly last winter when an interim deal was struck without Newfoundland's knowledge. This autumn, the province stormed out of negotiations, claiming that Ottawa was not being tough enough.

Later, Canada broke off the talks and barred French vessels from its ports and waters. France responded that it would step up fishing in the disputed zone (which Canada insists is already seriously overfished), and use its navy if necessary to protect French fishing vessels.

In recent weeks, reports suggest, a more conciliatory mood has hesitantly emerged, with the boundary dispute likely to be sent to international arbitration.

The importance of fish to the region can be seen from its role in the recent modest economic upturn. Four years ago, low prices and high interest rates forced three giant east coast processing companies into virtual bankruptcy.

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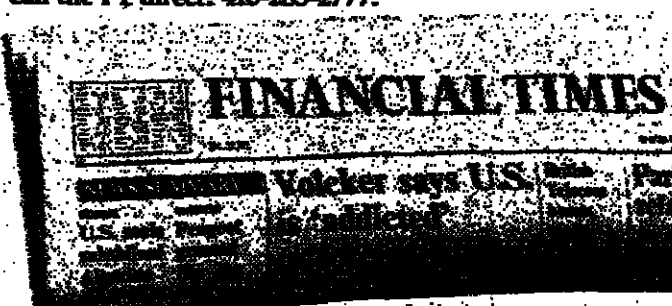
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